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Syria

Squandering Humanity

Socioeconomic Monitoring Report on Syria

Combined third and fourth quarter report (July – December 2013)

May 2014



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Disclaimer:

The analysis and policy recommendations of this report do not necessarily reflect the views of UNRWA or UNDP, or UNDP Executive Board Members or UN member states. The report is the work of SCPR supported by UNRWA and the UNDP Country Office in Syria

Cover Image:

Yarmouk residents gathered to await food distribution from UNRWA in January 2014.
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Acronyms and abbreviations

CBS	Central Bureau of Statistics in Syria
CPI	Consumer Price Index
EU	European Union
GDP	Gross Domestic Product
GNI	Gross National Income
GoS	Government of Syria
HDI	Human Development Index
HDR	Human Development Report
HIES	Household Income and Expenditure Survey
ICH	Intangible Cultural Heritage
IDP	Internally Displaced Persons
LFS	Labour Force Survey
MoE	Ministry of Education
MoET	Ministry of Economy and Trade
MoH	Ministry of Health
MoLA	Ministry of Local Administration
MoSA	Ministry of Social Affairs
NGO	Non-Governmental Organization
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
PL	Poverty Line
PICC	Planning and International Cooperation Commission
SCPR	Syrian Centre for Policy Research
SOE	State Owned Enterprise
SYP	Syrian pound
TB	Tuberculosis
UN	United Nations
UNDP	United Nations Development Programme
UNESCO	United Nations Educational Scientific and Cultural Organisation
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children’s Fund
UNRWA	United Nations Relief and Works Agency for Palestine Refugees
USD	United States Dollar
WDI	World Development Indicators
WFP	World Food Programme
WHO	World Health Organization
WHS	World Health Survey
WTO	World Trade Organization

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Executive Summary

As part of an ongoing analysis to track and assess the impact of the armed-conflict on socioeconomic conditions and the lives of ordinary citizens in Syria during the current crisis, UNRWA and UNDP commissioned a series of quarterly reports from the Syrian Centre for Policy Research (SCPR). The report is the third in the series and covers the two quarterly periods from July-September and October-December 2013. The analysis and projection of SCPR indicate that:

Economic impact

- With massive de-industrialisation, business closure and bankruptcy, capital flight, as well as widespread looting and destruction of business and household assets having already taken place during the course of the conflict, the armed-conflict has spawned institutional distortions emerging from a new political economy that is creating economies of violence that flout human rights, civil liberties, property rights and the rule of law. With new political and economic elites using national and international networks to illegally trade in weapons, commodities and people, while often engaged in pillage, theft, kidnapping and exploitation of humanitarian assistance. This institutional formation is incentivising the perpetuation of the conflict.
- By the end of 2013, total economic loss since the start of the conflict was estimated at USD 143.8 billion, which is equivalent to 276 per cent of the GDP of 2010 in constant prices. Damaged capital stock of USD 64.81 billion accounted for 45 per cent of this loss.
- GDP contracted by 38.2 per cent in 2013-Q3 and by 37.8 per cent in 2013-Q4 compared to the parallel quarters in 2012, with the total volume of GDP loss estimated at USD 70.88 billion, of which USD 16.48 billion was generated in the last half of 2013.
- The structure of GDP changed dramatically during the conflict, with agriculture and government services together accounting for 50 per cent of total GDP in 2013, with each becoming a growing share of a shrinking productive base.
- Contraction in private investment continued, regressing by 18.7 per cent in 2013-Q3 and by 16.9 per cent in 2013-Q4, while public investment shrank by 39.8 per cent in the second half of 2013.
- Public debt continued to grow in the second half of 2013 as the government imported oil and basic commodities to alleviate shortages in the local market and to subsidise basic goods. At the end of the period, public debt reached 126 per cent of GDP, but, while still largely drawn from domestic debt, a mounting portion is composed of foreign borrowing, mainly from Iran.
- Private consumption, which represents a direct measure of household welfare, contracted by 21.1 per cent in 2013-Q3 and by 25.5 per cent in 2013-Q4. At the same time as private consumption contracted, the CPI indicated that prices to consumers had risen by 178 per cent since the start of the conflict, with the cost of basic commodities such as yoghurt, cheese and eggs up by 360 per cent, general food items up by 275 per cent, while heating and cooking costs were up by 300 per cent. Thus,

runaway price inflation is squeezing the household budgets of an increasingly jobless, poor and desperate population.

- In the midst of such economic decline, public consumption is vital to prevent total collapse of economic demand. There was a shallow decline in public consumption which fell by 16.2 per cent in 2013-Q3 and by just 0.3 per cent in 2013-Q4. But the government is in an economic double-bind, whereby it needs to maintain demand and an income silo for households, while maintaining subsidies on the basic commodities that have become increasingly essential as households became poorer. At the same time, it is reallocating an increasing share of public resources to military purposes.
- Syria is blighted by joblessness and overwhelmed by unemployment with 54.3 per cent of the labour force, or 3.39 million unemployed persons. Some 2.67 million of these people lost their jobs during the conflict, with their loss of income impacting on the welfare of 11.03 million dependents.
- By the end of the period, the projected Institution Composite Index of Syria deteriorated by 80 per cent against its 2010 level, reflecting a lack of voice and accountability, political stability, government effectiveness and the rule of law. The collapse of institutional performance diminished the organisational sources of economic growth, which were also weakened by the destruction of human and physical capital.

Social impact

- The armed-conflict is squandering humanity through violence, fear and destruction that has inflicted multi-dimensional socioeconomic harm across all aspects of people's lives, livelihoods and habitat from which few Syrian households have escaped unscathed.
- Demography and human geography within Syria has undergone a radical spatial remapping as the population was hollowed out by 12 per cent by the end of 2013. Almost half of the population (45 per cent) fled their normal place of residence. A third of residents (5.99 million persons) were dislodged from their habitat, while the number of internally displaced persons (IDPs) increased by 1.19 million persons. As 1.54 million persons departed the country as non-refugee migrants, another 2.35 million people fled the country as refugees. Within this catastrophic population movement, 63 per cent of the community of 540,000 Palestine refugees in Syria have fled their homes, with 75,000 of them again fleeing as refugees. Half of them (270,000 persons) were internally displaced within Syria. By the end of 2013, refugees from Syria were the largest refugee population in the world.
- Syria has become a country of poor people afflicted by a ruinous descent into poverty, whereby three in every four Syrians lived in poverty at the end of 2013, with more than half the population (54.3 per cent) living in extreme poverty where they were unable to secure the most basic food and non-food items required for the survival of their households. Some 20 per cent of the population survive in abject poverty where they were unable to meet their basic food needs, with the abject poor in conflict zones and besieged areas facing hunger, malnutrition and starvation.

- Syrian human development regressed by more than four decades during the conflict. With a Human Development Index measure of 0.472, Syria has fallen from the “medium human development” cluster of nations into the “low human development” group, largely as a result of weakening performance in education, health and income.
- Education is teetering with a more than half of all school-age children (51.8 per cent) no longer attending school. This reached above 90 per cent in Al-Raqqa and Aleppo and 68 per cent in Rural Damascus. By the end of 2013, 4,000 schools were out of service because they were destroyed, damaged or housing IDPs.
- The healthcare system has been compromised through damage and destruction to medical facilities and healthcare infrastructure, the flight of healthcare professionals, death and injury of medical staff and the collapse of the pharmaceutical industry. Some 61 of 91 public hospitals were damaged with almost half (45 per cent) out of service, while 53 private hospitals also affected.
- The appalling loss of life is one of the most horrific aspects of the armed-conflict, with the death toll rising by 30 per cent to 130,000 deaths during the last six months of 2013. It is estimated that 520,000 persons – almost three per cent of the population - were maimed, wounded or killed in the conflict.
- Domestic powers of subjugation among various parties, together with forces of international influence, have hastened to profit from the crisis by suppressing the aspiration of civil powers aimed at reaching fairness and justice by diverting the movement towards armed-conflict.
- Under the crisis, Syrian national identity is being affected by contending and divisive narratives, one is inclusive and represented by the movement within civil society that seeks restoration based on dominion through citizenship and justice. While the other valorises clannish exclusion by attaching sovereignty to sub-national identity and belongingness, within an ecology of fear that nurtures fanaticism and fundamentalism that is opposed to the other and otherness. The future of Syria and its national identity is being formed within the dynamics of the conflict, which is at core a confrontation between the powers of subjugation and the universal interests of common society.

Introduction

Syria is facing one of the most severe development and humanitarian disasters in recent history. This has included not only the destruction of its economic, human, cultural and social capital but also the disputation of its national identity. This disaster is being fuelled and managed by formal and informal institutions at national and international levels that are squandering humanity in Syria. This report aims to estimate, document, and analyse the catastrophic development and socioeconomic impact of the ongoing armed-conflict using available updates and utilizing econometric models to estimate other key indicators.¹ Moreover, the disastrous socioeconomic outcomes reported here should serve as a development map and analytical tool for different parties to understand the enormity of the destruction in all its socioeconomic aspects. It is hoped that such reportage will help to guide policies, programmes and interventions for future rehabilitation, reconstruction and inclusive development. It is also hoped that by providing current data that shows the devastating impact of the conflict upon the lives of the ordinary people of Syria this will empower the rational forces that aim to create the means to find a just and inclusive exit from this catastrophic crisis.

As with the previous reports in this series, this report was prepared by the Syrian Centre for Policy Research (SCPR) and commissioned by UNRWA and UNDP. It adopts a framework that diagnoses the development situation in its widest definition as the building of people's capabilities and expanding their choices (Sen, 1999). The report applies a counterfactual methodology that compares the "crisis scenario", or the actual indicators that emerged during the crisis, with the "continuing scenario", or the indicators that would most likely have been achieved had the crisis not arisen. The report includes multiple macroeconomic and social performance indicators that were compiled and estimated based on available sources and in consultation with a number of experts. It also uses several models, such as financial programming, within a comprehensive developmental framework.

By updating the economic data for the last half of 2013, section one of the report focuses on the impact of the armed-conflict on the basic underpinnings of the economy. This focuses on the structure, value and segmentation of the sinking GDP, the scale of economic losses, escalating budget deficit, exchange rate performance, labour market distortion and the scale of unemployment.

Section two considers the social impact of the crisis through rapid population movement that is remapping the demography Syria, and maps the rise in poverty in the second half of 2013. It considers the downward spiral of the Human Development Index in Syria, and then looks at the collapse of education and its impact on human capital and finally considers the disintegration of the health system. This section also diagnoses the main powers in the Syrian crisis that adopted violence to dominate society (subjugating powers) versus the powers struggling for civil liberties and human dignity (civil powers).

¹ The data sources in this report are mainly from the Central Bureau of Statistics, Planning and International Cooperation Commission, Ministry of Health, Ministry of Education, Ministry of Local Administration, Ministry of Social Affairs, the Central Bank of Syria and UN agencies. In addition, formal interviews were conducted with experts and key national informants.

The social dynamic between the demonstrations in Syria in early 2011 and the descent into the folly of armed-conflict has opened a gap of oceanic proportions. The various subjugating powers (of oppression, fanaticism and fundamentalism), were able to enforce their dominant positions based on violence that has wrought the current humanitarian and socioeconomic disaster through which ordinary Syrians struggle to survive today, often down to the endurance of bare human life.

During this period, various formal and informal institutions evolved to serve the goals and objectives of subjugating powers, often with the support of external powers, which led to the predominance of conflict-related institutions controlling the lives of ordinary Syrians. In this situation, violence and the threat of violence is the main means of control and domination. As this report shows, the vast majority of Syrians are now excluded from social and economic life and held hostage to circumstances over which they have less and less control. Social solidarity and human relations were damaged as the armed-conflict fuelled hatred and division. While the combination of social and economic degradation has squandered humanity, human life and human achievement in Syria.

The armed-conflict had resulted in the flight and disintegration of economic resources and human capital, yet it has also resulted in a reallocation of resources to serve the intensification and continuation of the armed-conflict. Formal and informal social institutions, such as political organizations, educational entities, media, local communities and religious organizations have contributed to fuelling the conflict, while convincing young Syrians to join military operations to serve the various parties engaged in the fight. At the same time, the armed-conflict has shattered the health and educational infrastructure leaving the majority of Syrians with no proper access to basic services, leaving huge swathes of the population increasingly dependent on humanitarian support from local and international community to meet their basic needs, which despite widespread effort is not able to cover the most minimum needs of the massive and increasing number of refugees, IDPs and impoverished people.

The majority of Syrians faced a disastrous decline in their standards of living with the disintegration of their working and economic lives, due to the destruction of the economic infrastructure and the growth of international sanctions. As the economy has floundered, all parties to the conflict have sought to exploit the remaining economic resources to serve their control and military interests. This has resulted in the emergence of widespread illegal and violence-related activities that are managed by international and national financial networks that have diverted resources from productive to destructive activities. This includes the institutionalization of large-scale weapons trade and smuggling, with growing networks of organized crime engaged in widespread pillage and theft of private and public assets, including the rape of cultural heritage. Such activities have created exceptional streams of wealth and revenue for individuals and groups creating financial motivation for them to continue to support and sustain the armed-conflict.

I. Economic Impact of the Crisis

This report continues the previous efforts to use the most recent evidence on the economic situation in Syria to deepen our understanding of the economic dynamics since the emergence of the current crisis in March 2011. This has been done by estimating economic losses until the end of 2013 and particularly during the 2013-Q3 and 2013-Q4. This section continues the narrative and analysis of economic growth/decline across different sectors, the structure of the economy, sources of economic growth, fiscal policy and public budget structure, prices and exchange rates volatility, trade development, and the job creation situation. It takes into account how recent changes in the pattern of the conflict have essentially affected the economy.

Following the methodologies used to estimate the economic performance of the previous quarters (SCPR2013a, 2013b, 2013c), this report updates the estimations of real sectorial growth/decline during 2011, 2012, 2013-Q1, and 2013-Q2; together with the estimates of growth/decline during 2013-Q3 and 2013-Q4.² This was done through using actual quantitative proxy indicators, seasonality analysis, econometric projections, and a financial programming model. The report used the counterfactual methodology to estimate the economic loss, where the "crisis scenario" is the estimation of the actual GDP, and the "continuing scenario" is the projection of GDP during the same period as if the crisis had not occurred. Additionally, the approach used to estimate quarterly growth/decline utilises the production pattern of agriculture seasonality in 2011.

What is left? Continuing GDP Contraction

The ongoing decline of the Syrian economy continued to deteriorate throughout the second half of 2013, registering new records of decline across all economic spheres. Contraction of GDP reached 38.2 per cent in 2013-Q3, compared to the same quarter in 2012. Similarly, the contraction rate reached 37.8 per cent in 2013-Q4, compared to the same quarter in 2012. This was the worst year the Syrian economy experienced since national independence. Moreover it is one of the worst economic contractions in the world during a one year period since 1961.³ (WDI, 2013) The deterioration in second half of 2013 continued the slump in economic activity since 2011, when the contraction rates of GDP flowed at 3.9 per cent in 2011, 30.8 per cent in 2012, 35.1 per cent in 2013-Q1 and 39.7 per cent 2013-Q2. While the "continuing scenario" shows that, if the crisis had not emerged, Syria would have achieved an annual GDP growth rate of approximately 7.1 per cent in 2011, 6.5 per cent in 2012, 6.8 per cent in 2013-Q1, 6.4 per cent in 2013-Q2, 6.8 per cent in 2013-Q3, and 6.7 per cent in 2013-Q4 .

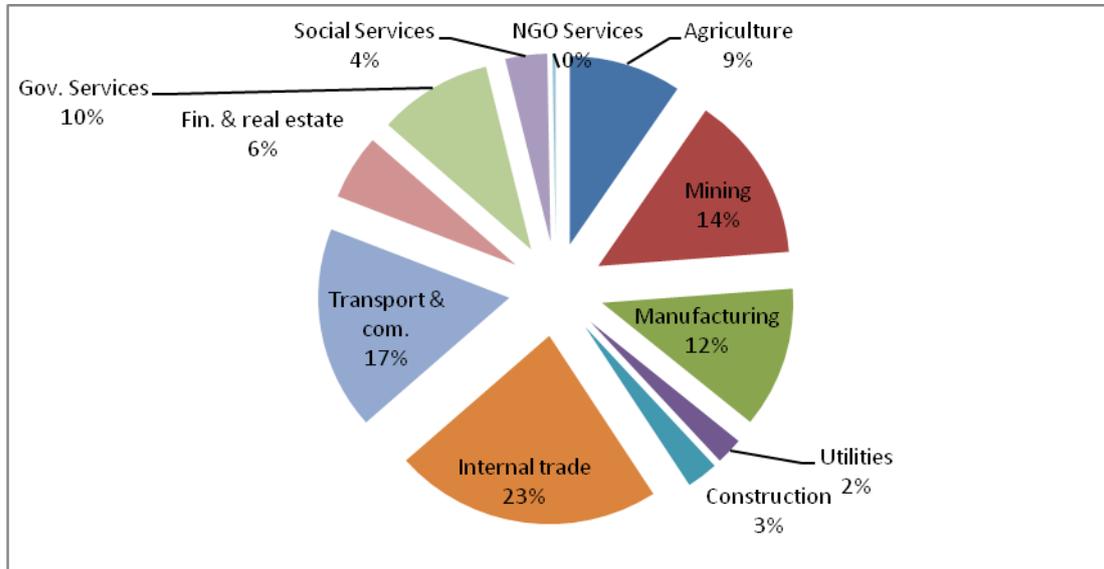
The main sectors contributing to accumulating GDP loss until the end of 2013 are: internal trade which lost SYP 465 billion and accounted for 22.8 per cent of the total GDP loss; transportation and communication lost SYP 358 billion and accounted for 17.5 per cent of total GDP loss; mining lost SYP 293 billion, making up 14.4 per cent of total GDP loss; manufacturing lost SYP 249 billion, comprising 12.2 per cent of total GDP loss; government

² Annual growth rates reported for 2011, 2012, with quarter-on-quarter growth rates for 2013-Q1, 2013-Q2, 2013-Q3, 2013-Q4 compared with the same quarter in the preceding year.

³ Authors reviewed the economic growth/decline of the GDP in constant prices using the World Development Indicators database.

services lost SYP 198 billion and accounted for 9.7 per cent of total GDP loss; while agriculture lost SYP 195 billion and accounted for 9.6 per cent of total GDP loss. (See Figure 1)

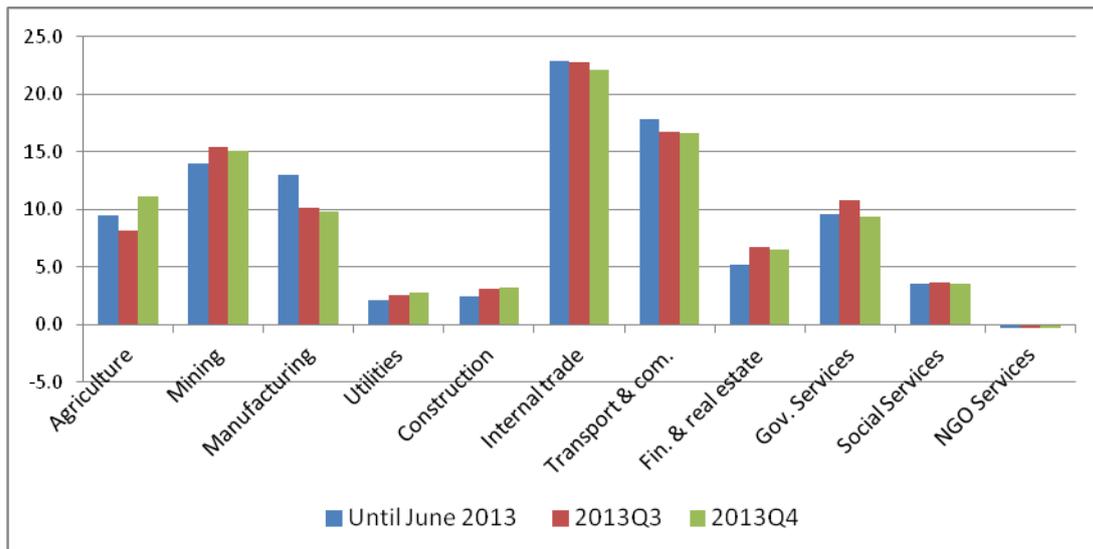
Figure 1: Sector structure of estimated total GDP loss (gain) 2011, 2012, and 2013.



Source: SCPR estimation

The loss structure of GDP during the 2013-Q3 and 2013-Q4 witnessed no dramatic changes in the relative contribution of each sector compared to the total GDP sector loss structure for the period 2011 to 2013-Q2. Nevertheless, during 2013-Q3 and 2013-Q4, there was a decrease in the share of manufacturing, internal trade, and transportation and communication to total loss, with a marginal increase in the share of finance and real estate, mining and government services as a component of loss. (See Figure 2)

Figure 2: Structure of GDP loss by sector till 2013-Q2, and in 2013-Q3 and 2013-Q4.

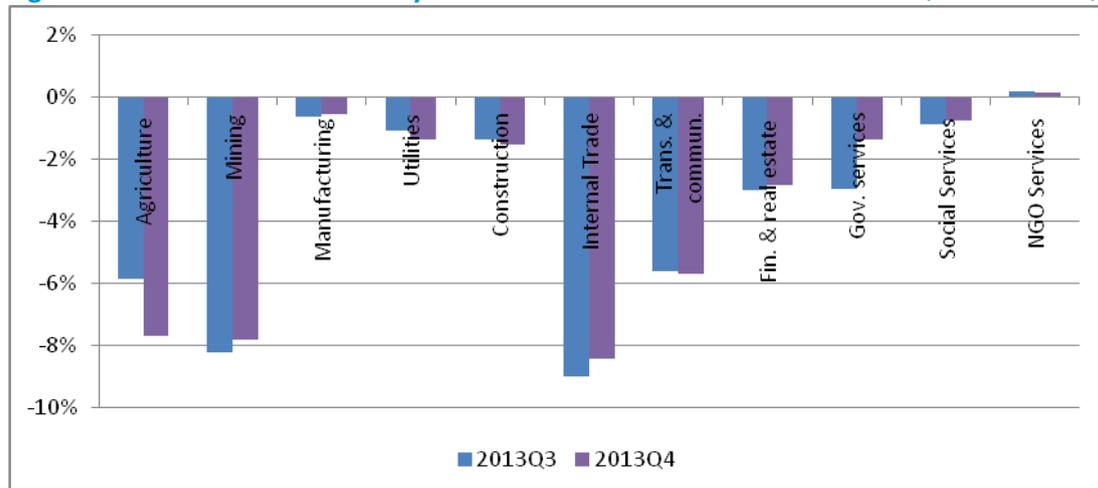


Source: SCPR estimation

Figure 3 shows that the sectors which contributed most to the contraction of economy in absolute terms in 2013-Q3 and 2013-Q4, compared to the comparative quarters 2012, were,

by order of magnitude, internal trade, mining, agriculture and transportation and communication.

Figure 3: Absolute contribution by sector to GDP contraction rate in 2013-Q3 and 2013-Q4



Source: SCPR estimation

As a result, the GDP of Syria in 2013 fell to 41 per cent of the GDP of 2010. If the conflict had not emerged, based on continuing scenario estimations, GDP in 2013 would have achieved 122 per cent of the GDP in 2010. Thus, GDP loss to the Syrian economy is estimated at SYP 2,042 billion in constant 2000 prices, with SYP 282 billion lost in 2013-Q3 and SYP 291 billion in 2013-Q4. (Table 1) The total GDP loss equates to 139 per cent of Syria's GDP in 2010, and at current prices the total GDP loss equals USD 70.9 billion.

In terms of the GDP by sector, 2013-Q3 and 2013-Q4 witnessed a sharp contraction in agriculture GDP compared to quarter of 2013-Q2, whereas, wage rises in the government sector during the period led to an increase in the government service GDP compared to 2013-Q2. In general, all sectors witnessed contraction in 2013-Q3 and 2013-Q4 compared to the same quarters in 2012, except for NGO services. (Table 1)

Before the current conflict, despite adverse climatic condition, the diversified nature of the **agriculture** sector in Syria enabled it to maintain a sustainable level of food security, but this is now under challenge. While production and capital stock were severely damaged during the crisis, agriculture continues to play essential role as both a productive pillar of the economy and a critical economic safety net for households, especially those based in the agrarian sector. However, the agriculture sector depicts significant seasonality with wide fluctuation in output across quarterly periods, e.g. before the crisis, in 2011 almost 51 per cent of annual production, including main crops such as wheat and barley as well as animal production, occurred in the second quarter, while 16 per cent was realised in the third quarter and 22 per cent in the last quarter. With the impact of seasonality, agriculture GDP contracted by 36.2 per cent in 2013 compared to 2012, with almost 60 per cent of this contraction due to reduction in plant production and 40 per cent due to falling animal production.

In 2013-Q3, agriculture accounted for 17 per cent of GDP, compared to 40 per cent during 2013-Q2, i.e. during the annual in peak period. While there is a regular seasonal falling off of production in the third quarter, there was a significant reduction compared to 2012; with

grape production falling 30 per cent, mainly in Homs and Dara'a; melon production falling by 50 per cent hitting the Al-Raqqa region where it is a major crop; tomato production dropped 40 per cent, affecting Dara'a where it is primary crop. In 2013-Q4, agriculture accounted for 22 per cent of GDP, with a lower level of contraction than the previous quarter. There was a 12 per cent reduction in olive output and a 21 per cent in reduction in apple output during the quarter, while the citrus production during the end of 2013 and the first part of 2014 increased by 22 per cent compared to the same period in 2012. Contraction in the livestock sector continued with a 41 per cent reduction in the value added of sheep production, a 52 per cent drop in chicken production and a 29 per cent decline in cattle production. The regression in animal GDP reflects a disastrous loss of livestock due directly to the armed-conflict, including pillage, smuggling and restrictions in accessing the market.

Table 1: GDP by sector 2010-2013-Q4 and estimated crisis impact, billions of SYP (in constant 2000 prices)

		Agriculture	Mining	Manufacturing	Utilities	Construction	Internal trade	Transport & com.	Fin. & real estate	Gov. Services	Social Services	NGO Services	GDP	Non mining GDP
Actual 2010		240	186	118	37	52	297	191	80	207	59	1	1,470	1,284
Continuing Scenario (Projection)	2011	263	185	124	42	54	311	208	88	230	67	1	1,574	1,389
	2012	276	185	130	48	55	326	227	96	257	76	1	1,676	1,492
	2013 Q1	30	46	34	13	14	85	62	26	71	22	0	405	359
	2013 Q2	149	46	34	13	14	85	62	26	71	22	0	523	477
	2013 Q3	46	46	34	13	14	85	62	26	71	22	0	421	375
	2013 Q4	65	46	34	13	14	85	62	26	71	22	0	439	393
Crisis Scenario (Estimation)	2011	263	163	93	39	59	263	158	87	228	60	1	1,413	1,250
	2012	227	83	27	34	33	164	108	56	190	53	3	977	894
	2013 Q1	15	8	5	7	4	23	17	8	39	11	1	137	130
	2013 Q2	74	3	6	6	5	23	14	8	32	11	1	183	181
	2013 Q3	23	2	5	6	5	21	14	7	41	11	1	138	136
	2013 Q4	32	2	5	5	5	21	13	7	44	11	1	148	146
Crisis Impact	2011	0	23	31	3	-5	49	51	1	3	7	0	162	139
	2012	50	102	103	14	22	162	119	40	67	24	-2	699	598
	2013 Q1	15	38	29	7	10	63	45	18	32	11	-1	268	229
	2013 Q2	75	43	28	8	9	62	48	18	39	10	-1	340	297
	2013 Q3	23	44	29	7	9	65	47	19	30	11	-1	282	239
	2013 Q4	32	44	29	8	9	65	48	19	27	10	-1	291	247
	till Dec 2013	195	293	249	47	55	465	358	115	198	73	-6	2,042	1,749

Source: SCPR' estimations based on preliminary data from the PICC and CBS.

The absence of safety and security in conflict zones resulted in farmers having infrequent access to their lands. In these areas there was widespread destruction to storage facilities, irrigation infrastructure, crops and trees, while there was significant pillage of livestock. At the same time, crop yield was affected by scarcity and the increasing cost of fertilizers and energy inputs. Agricultural output was affected by lack of feed, insecure pastures and limited access to markets. These events have also inhibited farmers from restocking livestock, which many can no longer afford to do even if the security situation enabled them to do so. Safety and security conditions also hampered the commercial transportation of products to markets, which increased costs and created rigidities in food markets across the country.

The significant reduction in domestic agriculture output has substantially offset by the importation of wheat, flour, sugar, meat, and other basic foods by the government and commercial traders. With the combination of rising food prices and scarcity of foodstuffs, food insecurity at the household level is a significant problem as poor families are increasingly unable to purchase their minimum food needs. The scale of this problem is threatening the survival and basic lives of an increasing number of Syrians, especially in those areas where humanitarian intervention is denied. Food insecurity and inequitable access is especially prevalent in besieged areas where there are people suffering from hunger, malnutrition and even starvation: Even while abundance in not more than a few streets away, as the current siege of Yarmouk in Damascus exemplifies.

The manufacturing sector was a driver of the Syrian economy through its complex linkages with the agriculture, internal trade, transportation and finance sectors. During the past decade manufacturing was an increasingly essential engine of job creation opportunities and diversification into non-oil exports. The sector consists of public firms (State Owned Enterprises) and private enterprises, mostly small and medium-scale enterprise (SMEs) which dominated the sector in terms of value-added, employees, and exports. Yet, SOEs, especially refineries and flour mills, have played important role in providing the economy with oil derivatives and bread at subsidized prices.

The armed-conflict has stricken the manufacturing sector, with manufacturing GDP in 2013 just 18.6 per cent of that of 2010. During the second half of 2013, the manufacturing sector contracted by 20.4 per cent in 2013-Q3, and 18.7 per cent 2013-Q4 compared to the same quarters in 2012.⁴ The sector has been particularly damaged in regions such as Aleppo, Rural Damascus, and Homs where many firms were concentrated, as these areas suffered from the most intensified battles and destruction during the crisis. During 2013-Q3, private firms continued to face substantial damage, with more than 90 per cent of industrial enterprises closed in the Alsheck Najjar industrial zone in Aleppo, 40 per cent were closed in Adraa industrial zone in Rural Damascus, 20 per cent were closed Hessia industrial zone in Homs, while all industrial enterprises were closed in the Deir Ezzor industrial zone. By the end of 2013-Q4 all enterprises in Adraa industrial zone had closed. Even where they were still able to operate it is estimated that surviving industrial firms are operating at less than 30 per cent capacity. Thus, a mood of despondency and uncertainty is predominant in the

⁴ The report used preliminary results of the industrial survey in 2013 to estimate the private sector value added, while for the public sector, administrative data for the main State Owned Enterprises (SOEs) has been used.

manufacturing sector, although a number of firms have adapted by relocating activities to more secure regions, such as Tartous, Latakia or Damascus city. Others have exported capital and operations outside the country, while others have reduced wages to continue operations.

The closure and destruction of firms and infrastructure has been mounting due to military operations, widespread pillage and looting and bankruptcy, while some firms have suffered from the abduction of managers and workers. This decline is mirrored in a sharp reduction in public and private investment and the loss of capital stock during the 2013-Q3 and 2013-Q4. Moreover, the mass reduction in manufacturing production has resulted in a decreasing supply of domestically produced goods in the local market, with the scarcity of such goods contributing to price increases.

As a part of public manufacturing sector, refinery production increased in the second half of 2013, compared to the 2013-Q2, due to the availability of imported crude oil. Moreover, other state-owned enterprises continued to suffer from a sharp decline in production during the second half of the year, e.g. textile production contracted by 20 per cent and it is expected to face further challenges in 2014 due to the low cotton production. During 2013 the production of cement was down by 50 per cent, food processing by 58 per cent, sugar by 95 per cent and tobacco by 33 per cent.

The Syrian **mining** sector consists mainly of oil, gas, and phosphates. Since the last quarter of 2011, sanctions caused a drop in oil production by 45 per cent as foreign companies withdrew. This was further hampered by constraints on financing, insurance and exports resulting from the sanction regime. The armed-conflict hit the remaining production facilities, with oil production falling from almost 200 thousand barrels per day in 2012-Q1 to 95 thousand barrels in 2012-Q4. The reduction continued in 2013, from 60 thousand barrels per day in 2013-Q1 to 18 thousand barrels per day in 2013-Q2. During 2013-Q3, production dropped to 16 thousand barrels per day, although there was a slight uplift in 2013-Q4 to 16.5 thousand barrels per day. These estimations do not include output from oil wells that have fallen beyond government control, where primitive extraction techniques are being used to extract and refine oil. Environmental and energy experts indicate that this is causing great damage to oil reserves and the environment.

The reduction in gas production was less severe than oil, with production down from 2.7 billion cubic metres in 2011-Q1 to 1.4 billion cubic metres in 2013-Q2. Although there was a slight fluctuation in the second half of the year with an increase in output to 1.5 billion cubic metres in 2013-Q3, this fell back to 1.4 billion cubic metres in 2013-Q4.

Overall, while the mining sector GDP contracted by 49 per cent in 2012, the speed of its downward spiral accelerated in 2013 as it contracted by 70 per cent in 2013-Q1, 91 per cent in 2013-Q2, 91 per cent again in 2013-Q3 and 82 per cent in 2013-Q4 compared to the same quarters in 2012. This contraction tightened the primary source of hard currency for the state budget, while making it vital for the government to import crude oil to cover shortages of oil derivatives in the local market, thereby increasing the bill for government subsidy even as energy prices soared for businesses and households. Moreover, the infrastructure and equipment required by the sector have been damaged directly by the armed-conflict due to pillage and theft.

The contraction in productive activity and restrictions on imports shrank the supply of goods in the domestic market, directly impacting the **trade sector**, including restaurants and hotels. Moreover, the internal trade infrastructure, which is composed of thousands of marketplaces and hundreds of thousands of commercial outlets, was damaged both directly and indirectly by the armed-conflict. Thus, during 2013 the trade sector GDP continued to contract; retrenching by 49 per cent in each of the last two quarters of 2013, compared to the parallel quarters in 2012. During the end of the second and third quarters there was a surge in consumer prices and scarcity of commodities as households stocked and hoarded food in expectation of a US-led air strike in August and September. This eased in the fourth quarter due to increased supply of essential goods due to expanded importation of basic goods, such as wheat, sugar, rice, and oil derivatives by the government, which reduced scarcity in some regions.

However, the sector has also been significantly affected by a squeeze on consumer purchasing power as 75 per cent of the population has fallen into poverty. At the same time, the increase in the cost of oil derivatives pushed up the price of all goods for ordinary consumers. The sector was also affected by restrictions on transportation, credit and financial transactions that have distorted the market and increased differences among local and regional markets across the country, which is most extreme in blockaded areas and conflict zones where many basic goods are unavailable or scarce such that normal trade has been effectively curtailed. Moreover, in many conflict zones, the traditional trade sector has been adversely affected by rising economies of violence and informality where markets are frequently monopolised by war-traders engaged in racketeering, smuggling and theft at the expense of legitimate business activity.

The **tourism** sector has been in a state of collapse since 2012 when it contracted by 87 per cent compared to 2011; reflected the drop in tourist numbers, tourist nights and tourism revenue. During 2013-Q3 and 2013-Q4 this contraction continued as the sector contracted by 76 per cent in the second half of 2013 compared to the parallel half of 2012. One of the business survival strategies among hoteliers, especially in Damascus, has been to rent out cut-price hotel accommodation to IDPs who still have a source of income and employment.

The **transport** sector has important spill-over effects on other sectors of the economy to which it provides essential services. The sector continued to suffer substantial damage, with the sector GDP contracting by 51.6 per cent in 2012 and by an estimated 46.1 per cent in 2013-Q1, 56.6 per cent in 2013-Q2, 55.4 per cent in 2013-Q3, and 60.3 per cent in 2013-Q4 compared to the parallel quarters in 2012. During the armed-conflict, control of the main highways and roads connecting the major cities and governorates in Syria and with neighbouring countries have been fought over as a major strategic asset by all parties involved in the armed-conflict. Intensifying military engagement during the third and fourth quarters of 2013 resulted in a deterioration of land transport services. Similarly, in the second half of 2013, airport services were sharply reduced at the two main airports in Damascus and Aleppo. Over the same period, while shipping and port services faced a significant reduction in the import and export of non-oil goods, there was a significant increase in oil import activity.

The sector faced a number of challenges, including lack of fuel and maintenance services, looting of private and public vehicles, while insecurity and physical risk of travelling continued to hinder the sector. As the traditional transport sector has suffered, there has been a remobilization of human capital, infrastructure, vehicles and equipment to serve the armed-conflict, with capitalisation commonly achieved through looting and extortion.

There was a dramatic change in the **communication** sector in the second half of the year, including communication and mail services. In previous periods the sector suffered less than other services sectors, but by the end of 2013 almost 40 per cent of the infrastructure in communication sector was damaged, while an increase in the cost of services in 2013-Q3 reduced effective demand. The communication sector GDP contracted by 36.3 per cent in 2013-Q3 and 45.3 per cent in 2013-Q4 compared to the same quarters in 2012.

The **financial and real estate sector** GDP contracted by 35.0 per cent in 2012. This continued in 2013 as it slimmed by 43.1 per cent in 2013-Q1, 42 percent in 2013-Q2, 47.6 per cent in 2013-Q3 and by 47.6 per cent in 2013-Q4, compared to the parallel quarters in 2012. In a financial environment of fiscal uncertainty, business insecurity and economic contraction, banking services were stressed as deposits shrank and the demand for loans and other financial facilities weakened, together with a substantial rise in bad debts. The sector was also damaged by the looting and destruction of banking infrastructure, while uncertainty and insecurity was also exacerbated by financial sanctions

In parallel with the traditional financial sector, a new network financial informality and money transfers from foreign sources has emerged to directly finance the conflict by providing funds to buy weapons and pay the salaries of fighters from all parties, with some funds also supporting social services, purchasing food, fuel and other services.

Properties in the real estate sector have suffered catastrophic damage and destruction to hundreds of thousands of homes, farms and commercial properties that are no longer habitable or operational. The asset value of this wealth of a major segment of the Syrian real estate market has been squandered by military devastation. Moreover, the destruction of real estate documents in some regions is putting the rights of people to their properties under threat. While tragic loss of habitat for hundreds of thousands of families is appalling, the reconstruction and rehabilitation of the sector will be one of the key instruments in the future kick-starting of the Syrian economy.

The **utility** sector provides the economy and households with electricity, water and sanitation services. Electricity production dropped by 25.7 per cent in 2013-Q1, 35.5 per cent in 2013-Q2, 30 per cent in 2013-Q3 and 28 per cent in 2013-Q4 compared to the same quarters in 2012. The second half of 2013 witnessed substantial damage to electricity stations and high voltage cables, as well as to the infrastructure providing generating stations with gas and fuel. Despite increased maintenance efforts to fix damage, many areas under conflict were cut-off from regular power sources. This has created marginalisation and inequity between regions and governorates, with those under opposition control most deprived. Similarly, the value added GDP of water and sanitation dipped by 21 per cent in 2013 compared to 2012. As a result, the utility GDP contracted by 29.6 per cent in 2013-Q3 and by 27.6 per cent in 2013-Q4. Such service contraction directly affects the living standards of households and businesses, forcing many to do without essential services for

long periods. To cope with power outage many wealthier households and most operating enterprises resorted to using less efficient and costly generators to provide direct electrical power.

Production in the **construction** sector is a highly dependent upon investments in other sectors, which have all faced global contraction. Thus, the construction sector GDP contracted by 36.9 per cent in 2013-Q3 and by 44.4 per cent in 2013-Q4 compared to the same quarters in 2012: This had already declined by 44 percent compared to 2011. With regression in public and private investments, the sector is set for further decline. One example of the challenges facing the sector is the fate of the cement industry, which is a key supplier of essential raw material: three out of the six state-owned factories have stopped production, including the major facility in the Adraa industrial zone, which closed in December 2013 due to the armed-conflict in that area.

The relative weight of **government services** in the economy increased during the crisis as the state attempted to create some economic stability by maintaining the public sector payroll and spending on current expenditure, including goods and services. The scarcity of public revenue increased the deficit and raised the debt level, with a significant part allocated to security and military spending. Moreover, as the GDP of government services contracted by 16.5 per cent in 2012, this continued in 2013 with a decline of 17.6 per cent in 2013-Q1 and 31.9 per cent in 2013-Q2 compared to the same quarters in 2012.⁵ During the third quarter the government increased wages to public employees which reduced contraction in 2013-Q3 to 13.8 per cent and to just 6.8 per cent in 2013-Q4 compared to the same quarters in 2012. Moreover, with consumer prices easing slightly in the fourth quarter, there was a marginal increase in the real wages of public sector employees.

Personal and **social services** contracted by 13 per cent in 2012, with a further contraction of 16.7 per cent in 2013-Q1, 14 per cent in 2013-Q2, 14.6 per cent in 2013-Q3 and 13.3 per cent in 2013-Q4, compared to the parallel periods in 2012. The contraction in personal services was largely the result of a general reduction in economic activities and reduced income among the population at large. However, social services, including health and education, provided by the private sector and civil society organisations grew in the second half of 2013 as the number of displaced people increased.

NGO services delivered by civil society organizations increased substantially in the second half of 2013, rising by 50 per cent compared to the second half of 2012, as social groups, charities and UN institutions reacted to the calamity to provide humanitarian and social support. However, despite such growth the value of the NGO share of GDP is remains marginal, with little compensatory effect.

Economic Inversion

As indicated in the foregoing description, the extended three year downturn of the economy has affected all economic sectors. The decline in value has been dramatic, with GDP in 2013 worth just 41 per cent of the GDP of 2010. Furthermore, the nature and structure of the

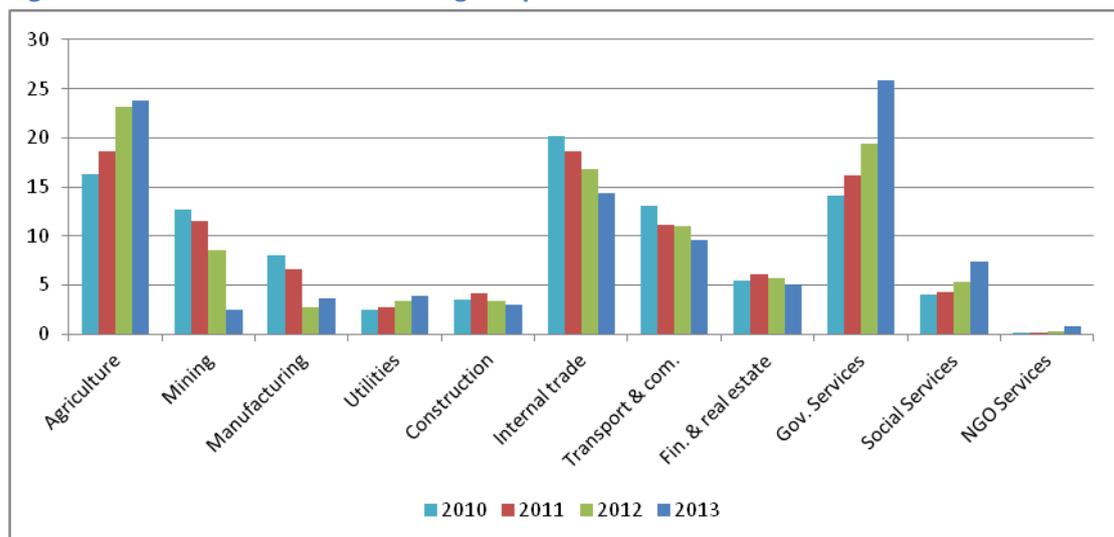
⁵ The main indicators used to project the government services value added growth are wages and salaries in addition to the goods and services in the public budget.

economy continued to undergo adverse transformation during the second half of the year. This has been affected by:

- The direct impact of the armed-conflict on the economy;
- The emergence of conflict-related economic activities and networks;
- A growing basic needs crisis;
- Ad hoc socioeconomic policies;
- The emergence of de facto institutions in the conflict areas;
- Regional and international policies targeting the Syrian economy;
- Civil society initiatives and action; and
- Deteriorating environmental conditions.

The economic slump was most severe in key productive sectors such as manufacturing and mining. Moreover, there has been a re-gearing of allocations with an increasing share of resources and human capital directed to serve activities that support the winning of the armed-conflict. This has been done at substantial human and material costs that will dog the economy for years to come. At the same time, there was an increased need to provide for the minimum basic needs of the population, including food, fuel, and shelter. These two requirements are a major challenge as they are in contradiction with each other, and can only be met with external support to both government and opposition forces.

Figure 4: Sectors' share of GDP during the period 2010-2013.



Source: SCPR estimations

Figure 4 highlights that by 2013 government services became the main economic sector, accounting for 26 per cent of GDP. This was followed by the agriculture sector at 24 per cent and internal trade and transport and communication at 14 per cent and 10 per cent, respectively.

The increasing importance of government services reflects the hefty intervention by the state to maintain key services, logistics, and public sector employment, including military expenditure. The agriculture share of GDP has grown throughout the conflict even if its value is lower than in the past, although agricultural performance in 2012 and 2013 was boosted by relatively good climatic conditions. Moreover, the huge humanitarian burden increased the share of the social services and NGO portion of the economy; although this has not been

sufficient to meet the massive requirement for humanitarian support required as millions of people were displaced, lost their jobs and became poor.

Struggle for Survival

The contraction in the supply of goods and services is mirrored on the demand side by the rundown of wages, profit and interest in the national accounts, which tamped down effective domestic demand. One of the main economic impacts of the conflict has been to shift the demand structure towards consumption and imports at the expense of investment and exports.

Private consumption, which represents a direct measure of household welfare, contracted by 22.5 per cent in 2012 compared to 2011, falling again in 2013 when it contracted by 7.1 per cent in 2013-Q1, 27.6 per cent in 2013-Q2, 21.1 per cent in 2013-Q3, and 25.5 per cent in 2013-Q4 compared to the parallel quarters in 2012. While in the short-term households commonly attempt to resist reduction in real private consumption through utilising savings or loans, the prolonged duration of the crisis has radically changed household consumption patterns, with families concentrating expenditures on the most vital goods and services as they have exhausted savings and other resources. The conflict has transformed household consumption priorities and behaviour as the majority struggle to secure a minimum level of nutrition, often from poorer quality food, while fuel and electricity consumption has become of declining share of household budgets. Moreover, rental cost has become a large piece of household budgets for millions of IDPs.

Economic degeneration and destruction has resulted in massive job loss, deteriorating work conditions and wage reduction, which has deprived millions of people and households of their former sources of income. This is directly reflected in substantial drop in consumption levels. However, this situation has been worsened at the household level by surging prices, especially food and fuel costs. The vast majority of Syrians became poorer in 2013, with rising rates of abject poverty, where households cannot meet even the most basic need for food. As a result hundreds of thousands of Syrian households have come to depend on direct and indirect social support, transfers, and subsidies from civil society organisations, government and international organizations to augment or supply their consumption needs. Unfortunately, such support falls far below the real needs of the people, with the poorest regions least likely to benefit sufficiently from humanitarian intervention.

In the midst of this decline, **public consumption** continued to play critical role in preventing total economic collapse. While the government increased public sector wages during the second half of 2013, increasing the purchasing power of these employees, it did not stem the fall in public consumption, as government revenues declined and public debt mounted. Public consumption contracted by 23.4 per cent in 2013-Q1, 11.9 per cent in 2013-Q2, 16.2 per cent in 2013-Q3 and 0.3 per cent in 2013-Q4 compared to the parallel quarters in 2012. The crisis of public consumption is caught in a challenging double bind: on the one hand, government procurement and expenditure is essential to maintain demand and provide a substantial income silo for households as well as providing subsidies on the basic commodities that people need to survive. These items have become more important as the crisis has deepened, even if they do not fully meet total needs. On the other hand, the

government is reallocating an increasing share of its resources to military activities, which continues to undermine the foundations of the economy.

The **investment** environment is sodden with risk. After three years of widespread devastation to capital through destruction of physical infrastructure, buildings, plant and equipment and utilities, combined with fractured markets that constrain access to fuel and raw materials in an environment where the rule of law and property rights are fragile and under attack from conflict-related organisations and networks, with regular investment is no longer feasible. Moreover, this uncertainty and insecurity is further hampered by short-term speculation, exchange rate volatility, declining access to mortgage facilities, bad debts and sanctions.

Table 2: GDP by expenditure 2010-2013-Q4, billions of SYP in constant 2000 prices

		Consumption	Public	Private	Gross capital formation	Public	Private	Change in inventory	Net Foreign Export	Exports	Imports	GDP (market prices)
Actual 2010		1,225	258	967	330	144	193	-8	-85	404	489	1,470
Continuing Scenario (Projection)	2011	1,287	285	1,002	360	145	207	8	-73	414	487	1,574
	2012	1,354	315	1,039	384	146	222	16	-62	424	486	1,676
	2013 Q1	356	87	269	84	37	60	-12	-36	80	116	405
	2013 Q2	356	87	269	176	37	60	80	-9	106	115	523
	2013 Q3	356	87	269	85	37	60	-12	-20	100	121	421
	2013 Q4	356	87	269	67	37	60	-29	15	147	132	439
Crisis Scenario (Estimation)	2011	1,204	297	907	367	113	174	80	-158	372	530	1,413
	2012	975	272	703	155	49	51	56	-154	179	333	977
	2013 Q1	192	60	132	22	2	10	10	-77	24	100	137
	2013 Q2	226	52	174	25	5	11	10	-68	31	100	183
	2013 Q3	182	59	123	27	7	10	9	-71	22	93	138
	2013 Q4	187	64	123	31	10	10	10	-69	33	102	148
Crisis Impact	2011	84	-12	95	-7	32	33	-72	85	42	-43	162
	2012	379	43	336	229	97	171	-40	92	244	153	699
	2013 Q1	165	27	138	62	35	49	-22	41	56	16	268
	2013 Q2	130	35	95	151	32	49	70	59	75	16	340
	2013 Q3	174	28	146	58	29	49	-21	51	78	27	282
	2013 Q4	170	23	147	37	27	49	-39	85	115	30	291
	till Dec 2013	1,101	144	957	530	252	401	-124	411	609	198	2,042

Source: SCPR' estimations based on preliminary data from the PICC and CBS.

Investments continued to fall in 2013, with **public investment** plummeting by 82 per cent in 2013-Q1 and by 61.9 per cent in 2013-Q2. While public investment is usually clustered toward the second half of the year, this year it declined by 39.8 per cent. Moreover, **private investment** contracted by 70.8 per cent in 2012, and by 15.3 per cent in 2013-Q1, 20.4 per cent in 2013-Q2, 18.7 per cent in 2013-Q3 and by 16.9 per cent in 2013-Q4, compared to the same quarters of 2012. The conflict has dramatically changed government priorities as it reallocated an increasing share of its resource from current expenditure on investment projects to military, wages, and subsidy. Thus, combined public and private investment in 2013 formed just 10.8 per cent of the GDP, which is below the normal annual depreciation rate of capital stock, resulting in negative net investment in 2013.

The degenerating economic conditions also affected **exports** which continued fall in 2013. During the first half of 2013 exports contracted 28.5 per cent, with a further contraction of 46.4 per cent in the second half of the year compared to the parallel periods in 2012. The drop in the domestic production raised the need to import essential goods, such as food and oil products, with the government importing the majority of its oil needs in 2013 as oil extraction ceased in most existing state-owned oil wells. Meanwhile, local demand for intermediate and luxury goods fell as household incomes declined. Sanctions and scarcity of hard currencies made imports more difficult to effect and more costly to procure. During the first half of 2013 **imports** increased by 25.8 per cent and by 12.3 per cent in the second half of the year compared to the parallel periods in 2012. The country is now experiencing a growing trade deficit, which developed from minus SYP 154 billion in 2012. This grew by an additional SYP 77 billion in 2013-Q1, SYP 68 billion in 2013-Q2, SYP 71 billion in 2013-Q3 and SYP 69 billion in 2013-Q4. In 2013 the total trade deficit reached 47 percent of GDP. (See Table 2)

The demand structure in 2013 reflected significant deficiencies in the economy, with total consumption accounting for 130 per cent of GDP; indicating a significant and unsustainable drawdown on domestic savings, with **national savings** accounting for minus 14.2 per cent of the Gross National Disposable Income. Furthermore, imports accounted for 65.2 per cent of GDP, while the exports accounted for 18.1 per cent. Thus, the economy is highly exposed and dependent on foreign savings, including assistance on the import of goods and services.

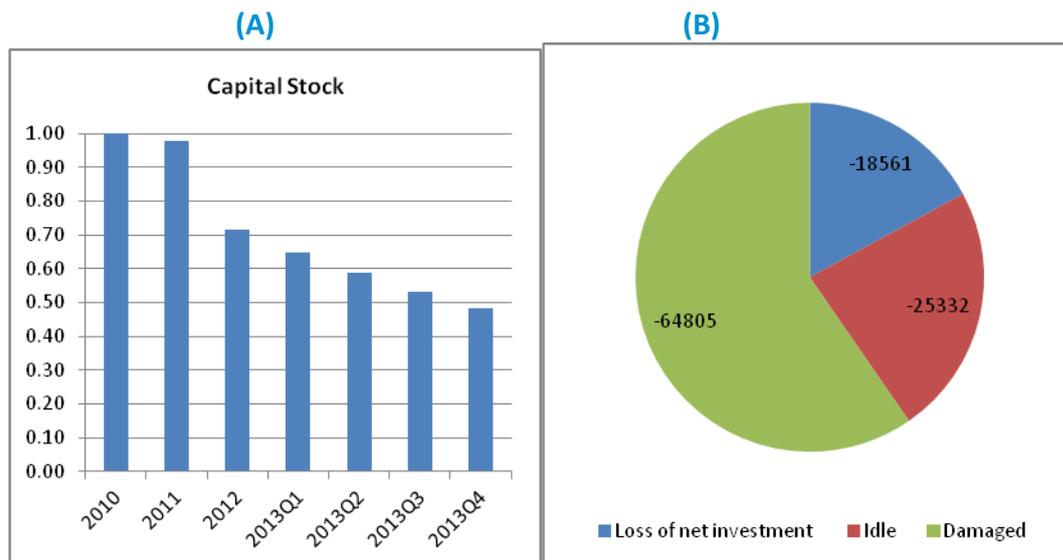
Total Economic Losses Reach USD 143.8 Billion

GDP loss, which was discussed in the previous sections, is only one component of the total estimated economic loss in Syria. The other two components are damage to capital stock as a result of the armed-conflict and the increase in off-budget military expenditure. The capital stock losses were estimated using the counterfactual methodology, which resulted in a total loss of capital stock until the end of 2013 projected at USD 108.7 billion in current prices. (See Figure 5) This loss consists of three components including: **reduction in net investment** of USD 18.6 billion, which was already accounted for in the estimate of GDP losses; **idle capital stock**, as a result of physical capital ceasing to contribute to production, services and value-added, is project at USD 25.3 billion, which is also included in the calculation of GDP loss; and **partial or full damage to capital stock** is estimated USD 64.8 billion due to damage incurred as a result of the armed-conflict, which includes ruined public and private properties, equipment, and residential and non-residential buildings. This component was

not included in the estimation of GDP loss, and thus it should be added to the total economic losses.

Capital stock in 2013 was less than half that of 2010. This major physical asset is the main source of growth and development for the Syrian economy. The current level of loss indicates that, ceteris paribus, in the future Syria will require tens of billions of dollars in investments to re-float the economy to its former level of capitalisation.

Figure 5: (A) Estimated loss of Capital Stock, from 2010 to 2013-Q4 (USD millions) at current prices, (B) Capital stock loss distribution by its components



Source: SCPR calculations based on (Nasser, Mehchy 2012b: capital stock estimation of Syria 1965-2010)

The exceptional increase in official military expenditure is considered as part of economic loss, since this is generally a reallocation of budget resources from public good, including education, health and welfare, to weapons and security. Moreover, as outflows to military expenditure and manufacturing are treated as off budget items they are not reflected in the calculation of GDP loss. As transparent data is not readily available, it is difficult to project the extent of the increase in the military expenditure account. But by utilising cross-country empirical evidence, it is projected that off budget increase in military expenditure in Syria accounted for 1.7 per cent of GDP in 2011, 11 per cent in 2012, and 15.9 per cent in 2013.⁶ Moreover, military expenditure by the armed opposition is not available and has not been estimated in this study. (SCPR, 2013a)

Thus, based on the foregoing analysis, the armed-conflict in Syria generated a total estimated economic loss of SYP 4,052 billion at 2000 constant prices, this is equivalent to 276 per cent of the GDP of 2010 at constant prices. In current prices by the end of 2013, the total economic loss is estimated at USD 143.8 billion. (See Table 3) GDP loss accounts for 49 per cent of the total loss, damage to capital stock accounted for 45 per cent, while reallocation to increased military expenditure accounted for six per cent of total economic loss.

⁶ Calculations made by using data from Collier and Hoeffler.

Table 3: Total economic losses in millions of USD (at current prices)

	2011	2012	2013 Q1	2013 Q2	2013 Q3	2013 Q4	Total
GDP loss	6,658	27,145	9,587	11,004	7,938	8,546	70,879
Capital stock damaged	9,193	29,684	8,225	6,984	5,417	5,302	64,805
Increase in military expenditure	960	4,171	649	913	683	766	8,142
Total economic losses	16,812	60,999	18,461	18,901	14,039	14,614	143,826

Source: SCPR estimations 2014.

Burdens of the Next Generation

The public budget enabled the government continue to play a significant economic role during the crisis. But during this period the structure of the public budget shifted dramatically on both the expenditure and revenue sides. The armed-conflict and sanctions reduced oil-related revenue to the minimum, while the surplus from state-owned enterprise fell sharply, as direct and indirect taxes from the private-sector also fell. Although the government maintained current expenditure on wages and salaries, which boosted public demand, while providing the main source of income for almost 1.5 million employees. Additionally, public subsidies and transfers increased significantly in an attempt to meet the huge need for basic foodstuff, fuel, and electric power among the population.

Table 4: Revenue, expenditure and government budget deficit (% of GDP), 2010-2013-Q4*

	Actual			Projected			
	2010	2011	2012	2013 Q1	2013 Q2	2013 Q3	2013 Q4
Revenue	22.7	17.4	9.8	10.4	4.8	8.4	10.9
Oil-related proceeds	7.0	5.0	2.9	2.6	1.4	1.4	1.3
Non-oil tax revenue	9.4	8.4	5.1	6.4	2.7	5.4	7.9
Non-oil non-tax revenue	6.3	4.0	1.8	1.4	0.7	0.8	0.6
Expenditure	24.9	26.3	30.0	41.7	28.4	39.4	40.3
Current expenditure	16.2	19.4	25.7	40.3	26.3	35.3	35.1
Wages and salaries	10.7	13.5	16.3	24.0	15.5	23.5	23.5
Goods and services	1.3	1.4	1.6	2.2	0.7	0.9	0.7
Interest payments	0.8	0.9	1.3	2.1	2.9	3.8	3.8
Subsidies and transfers	3.5	3.7	6.6	12.0	7.2	7.2	7.2
Development expenditure	8.7	6.9	4.3	1.4	2.2	4.1	5.2
Budget balance	-2.2	-8.9	-20.2	-31.3	-23.6	-31.9	-30.7
Budget balance with off budget subsidies	-2.2	-12.1	-33.7	-59.1	-40.1	-54.2	-53.7

Source: ibid

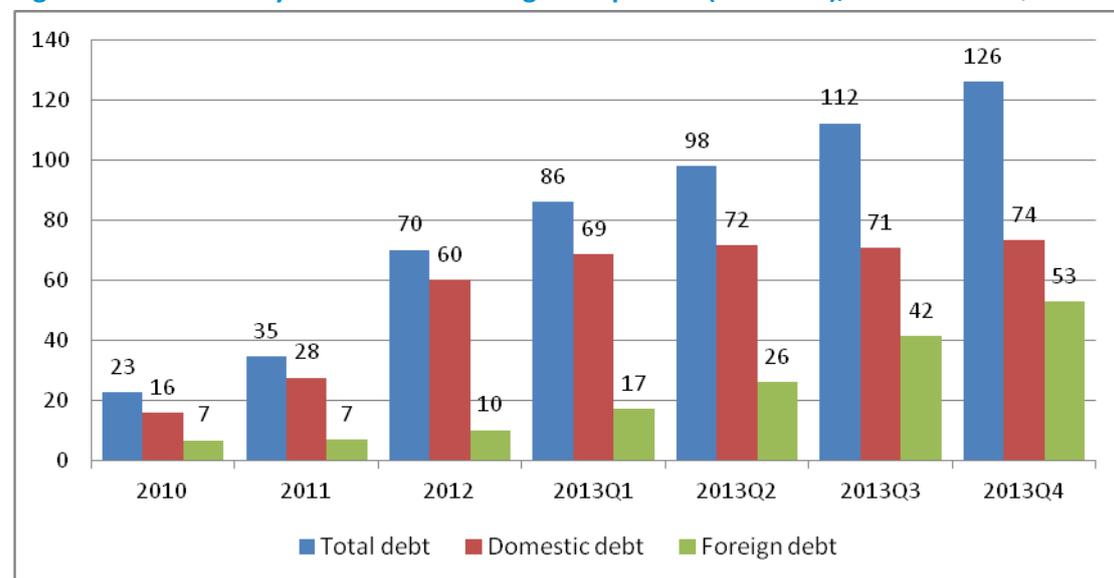
* GDP in 2013 are seasonally adjusted

The increase in current expenditure was at the expense of public investment which dropped to 3.6 per cent of current GDP in 2013. Moreover, the armed-conflict resulted in a substantial reallocation in the share of public resources to the military expenditure, including wages and compensation, equipment, weapons, and logistics in addition to other off-budget spending. As a result, the increase current expenditure combined with the drop in revenue created a surge in the public deficit, which was reflected in dramatic jump in the public debt.

During 2013-Q3, the budget deficit at current prices increased to 31.9 per cent of GDP, then fell to 30.7 per cent in 2013-Q4 as a percentage of the seasonally adjusted current GDP. The addition of off budget subsidies increased the deficit to 54.2 per cent and 53.7 per cent of the current GDP during the same quarters. In the second half of the year, government revenues increased slightly compared to the 2013-Q2, accounting for 8.4 per cent of GDP in 2013-Q3 and 10.9 per cent in 2013-Q4, while public expenditure increased to 39.4 per cent of GDP in 2013-Q3 and to 40.3 per cent in 2013-Q4 due to wage increases in the second half of 2013.

To a large extent, the government continued to finance the deficit from domestic resources, particularly through the central bank. However, during 2013 external credit was increasingly used to import oil and other basic goods, shifting the structure of the public debt towards an increasing foreign debt component, which will continue in 2014. Public debt increased substantially relative to current GDP, from 86 per cent in 2013-Q1, to 98 per cent in 2013-Q2, 112 per cent in 2013-Q3, reaching 126 per cent by 2013-Q4. (See Figure 6)

Figure 6: Total debt by domestic and foreign component (% of GDP), 2010 - 2013-Q4



Source: SCPR estimations.

The domestic component of public debt measured against GDP increased in 2013-Q1 from 69 per cent to 72 per cent in 2013-Q2, to 71 per cent in 2013-Q3 and to 74 per cent in 2013-Q4. Moreover, foreign public debt has risen significantly during the conflict, moving from the equivalent of 17 per cent of current GDP in 2013-Q1, to 26 per cent in 2013-Q2, to 42 per cent in 2013-Q3 and to 53 per cent by 2013-Q4. The foreign debt burden is substantially dependent on credit from Iran. These loans are concentrated in servicing public

consumption to enable the government to provide and sustain minimum services and basic goods in the economy. As such, this debt is largely supporting consumption rather than creating growth and its repayment will be a burden on the next generation. Moreover, during any period of reconstruction the government will need to mobilise significant additional volume of domestic and foreign resources to create economic rehabilitation and growth.

The standard government procedures and processes changed dramatically during the crisis, which has increased uncertainty, lack of transparency, inefficiency, inequity, and poor monitoring and accountability. Moreover, fiscal management is increasingly driven by ad-hoc and short-term decision-making processes, e.g. public procurement activity frequently use grey and black markets, both nationally and internationally, to avoid sanctions and conflict related restrictions.

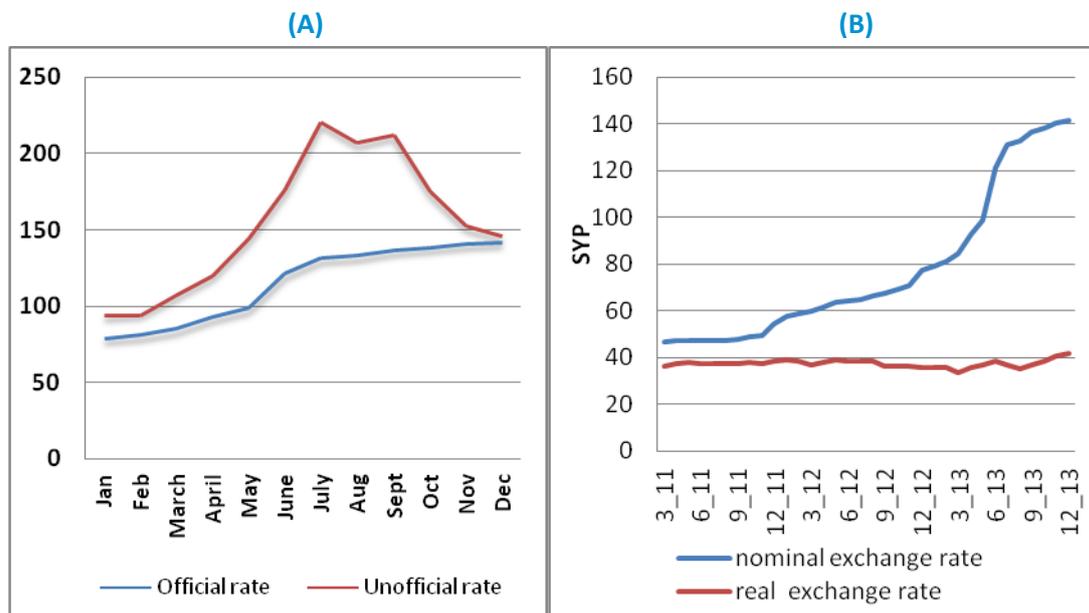
Unstable Equilibria of the Exchange Rates

Direct market interventions by the Central Bank to mitigate the impact of the crisis on exchange rate during the first half of the year, initially did little to deter FX speculation or black market activities. Several decrees were issued to stabilize the exchange rate, including legislative decree number 54, approved in August, determining that the Syrian Pound is the only means of payment allowed for all types of financial transactions within Syria, while making it illegal to price commodities in foreign currencies.

During 2013-Q3, the Syrian pound continued to depreciate against US dollar, reaching an unprecedented monthly average rate of SYP 221.1 to one US dollar in the unofficial market, reflecting a depreciation of 137.4 per cent compared to January 2013. The market was particularly unsettled during August and September at the prospect of aerial attack by Western powers that saw the unofficial exchange rate reach a peak of SYP 250 to one US dollar.

However, by 2013-Q4 there was notable appreciation of the Syrian Pound in the unofficial market, while the official rate continued to depreciate. This closing gap between the two measures brought the official exchange rate near to the unofficial rate at the end of the year. Appreciation in the unofficial market reflected a number of factors, including: the improved political and military perception of the government following the agreement to destroy chemical weapon stockpiles; reopening of enterprises; and, to a lesser extent the forceful application of the decrees relating to foreign currency dealing. In October the average monthly FX rate in the unofficial market reached SYP 175.2 to one US dollar, while the trend continued during November and December when the rate fell to SYP 152.4 and SYP 146.1, respectively. The official FX rate also improved during this time as it declined to a monthly average of SYP 141.6 to one US dollar by December 2013. (Figure 7 (A)) In general, depreciation should contribute to increasing the competitiveness of exports, particularly non-oil goods. However, the decrease in the value of the Syrian pound was accompanied with a relatively stagnant real exchange rate during 2013 due to the increase in domestic prices. (Figure 7 (B))

Figure 7: (A) Official and unofficial exchange rate from January till December 2013 in SYP for one USD, (B) Nominal and Real Exchange Rate from March 2011 to December 2013 in SYP for one USD



Source: Central Bank of Syria, PICC, and SCPR calculations

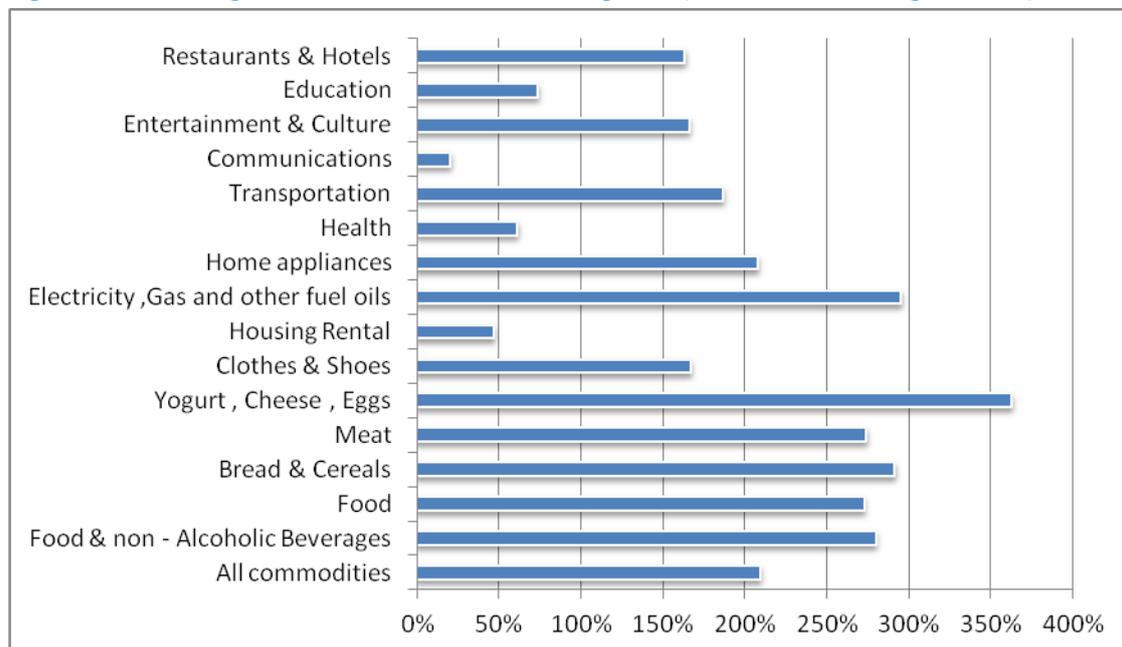
During the second half of 2013, the gap between official and unofficial exchange rate was substantially reduced. Minimizing the margin between both will reduce black market activity by creating incentives to deal with the foreign currencies in the unofficial market. While exchange rate volatility was reduced, in the latter half of the year, depreciation of the official exchange rate reached around 80 per cent in 2013. The increasing damage across all economic sectors, combined with international sanctions, does not leave much space for appreciation without the authorities' interventions and substantial external support. Appreciation is unlikely to be sustainable until the armed-conflict is halted and production processes are reactivated.

Rising Cost of Living

Based on the Central Bureau of Statistics data until August 2013 and SCPR projections for the remaining four months of the year, it is estimated that the consumer price index (CPI) increased by 18.6 per cent in 2013-Q3 and by 8.9 per cent in 2013-Q4. Thus, by the end of 2013, the CPI increased by 178.7 per cent compared to the start of the conflict in March 2011. Yet, the projections for the CPI in the fourth quarter of 2013 witnessed a decrease by 8.2 per cent comparing to 2013-Q3. This decrease could be explained by the appreciation of the Syrian Pound in the unofficial market and to a lesser extent by the slight improvement in the production of goods by local manufacturers. Moreover, the government has intervened in the market by selling basic goods directly to the consumers through its outlets and this had a positive, if marginal, impact on the price of such goods. Moreover, prices for the same goods differ substantially between areas and regions, with prices in the conflict zones

usually higher than elsewhere due to scarcity of basic commodities as a result of the security situation, limitation on transportation and lack of access due to blockades.⁷

Figure 8: Percentage increase of CPI in main categories (March 2011 to August 2013)



Source: Central Bureau of Statistics and authors' calculations

The recent update of the Central Bureau of Statistics (August 2013) for the CPI by main categories (Figure 8) shows the cost of “yogurt, cheese, and eggs” increased by 360 per cent during the crisis, as the price of general food items climbed by around 275 per cent. Moreover, the prices of electricity, gas, and fuel oils surged by 300 per cent. The cost of vital services has also increased with education and health costs up by 74 per cent and 61 per cent, respectively. Although this increasing financial burden has fallen on all sectors of Syrian society, it has weighed most heavily on poor households where food constitutes and increasingly important component of their consumption basket. Such poor households are a burgeoning share of the population, with poor people ballooning from half the population in the first half of 2013 to three-quarters of the population and the end of the period. Thus, price inflation and the collapse in households' sources of income shifted people's consumption patterns towards the very basic goods and services, often of quite low quality.

Labour Market Distortion

The armed-conflict had a major impact on the labour market, not only in terms of its structure but also in the working culture. The labour force survey conducted by the Central Bureau of Statistics (CBS) in 2011 showed that the employment rate decreased from 39 per cent in 2010 to 36.1 per cent in 2011, while the unemployment rate increased from 8.6 per cent in 2010 to 14.9 per cent in 2011. Taking this as a baseline to assess the impact of the crisis on the labour market during 2012 and 2013, this report applies a counterfactual analysis similar to the one applied to the of estimate economic growth/decline. By

⁷ Additionally, conflict-related black market and criminal networks benefited from smuggling, looting, theft, and monopolizing of the basic goods and service, creating an interest among such groups in the continuation of the conflict.

comparing between "continuing" and "crisis" scenarios, the results show that the labour market lost 1.57 million job opportunities in 2012, increasing to 2.39 million during 2013-Q3 and to 2.67 million by the end of 2013. This trend is reflected in unemployment ratios, with the unemployment rate rising dramatically from 37 per cent in 2012, to 50 per cent in 2013-Q3, reaching 54.3 per cent at the end of 2013 when 3.39 million persons were unemployed compared to 2.85 million persons in employment. (Table 5)

Table 5: Impact of the crisis on the labour market (in thousands)

Employment Status		Employed	Unemployed	Out of LF	Total Active Population	Unemployment Rate
Continuing scenario	2011	5,214	600	7,594	13,409	10.30%
	2012	5,365	659	7,857	13,881	10.90%
	2013Q1	5,406	671	7,926	14,003	11.00%
	2013Q2	5,444	687	7,996	14,127	11.20%
	2013Q3	5,485	700	8,066	14,251	11.30%
	2013Q4	5,524	715	8,137	14,376	11.50%
Crisis scenario	2011	4,949	865	7,594	13,409	14.90%
	2012	3,795	2,225	7,862	13,881	37.00%
	2013Q1	3,576	2,501	7,926	14,003	41.20%
	2013Q2	3,329	2,802	7,996	14,127	45.70%
	2013Q3	3,090	3,095	8,066	14,251	50.00%
	2013Q4	2,854	3,385	8,137	14,376	54.30%

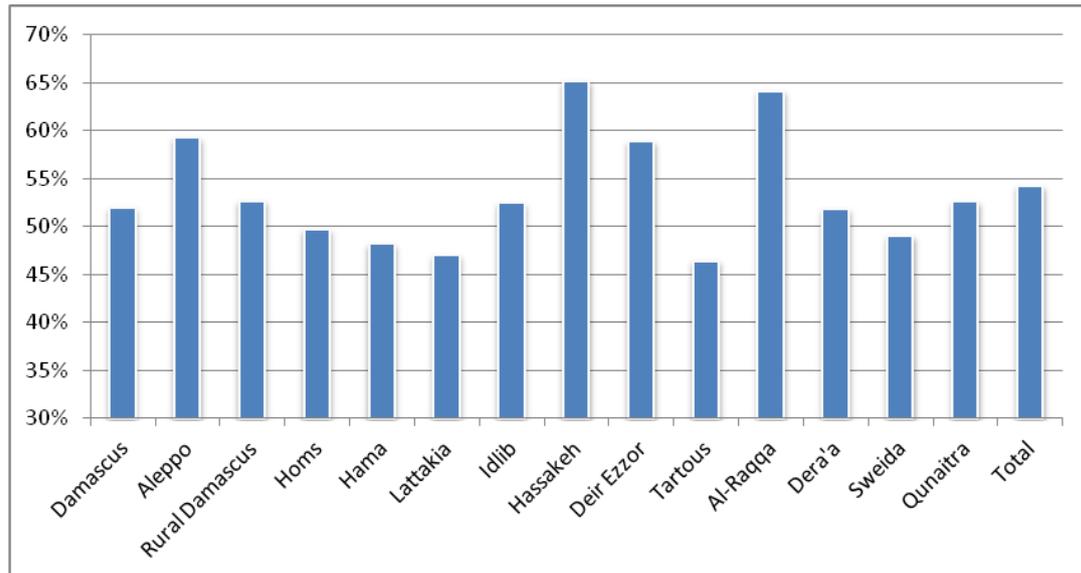
Source: SCPR estimations based on LFS (2006 – 2011), CBS

The SCPR projected unemployment rate by governorates until the end of 2013 show that the Hassaka governorate is most blighted with joblessness with 65 per cent of the workforce unemployed. Al-Raqqa had a similarly devastated workforce as the unemployment rate was 64 per cent. The majority of the labour force in Aleppo and Deir Ezzor were idle, with both having an unemployment rate of 59 per cent. Damascus, Rural Damascus, Idlib, Dara'a and Qunaitra all had unemployment rates of over 50 per cent.

Tartous, Latakia and Hama had the lowest unemployment rates in the country at 46 per cent, 47 per cent and 48 per cent, respectively, while unemployment in Sweyda and Homs is slightly below 50 per cent. (Figure 9) Thus, in general, the governorates with the most widespread and intense levels of armed-conflict and lowest levels of security have the highest unemployment rates, as well as the highest poverty rates. Governorates that were more stable and less affected by direct armed confrontations had the lowest unemployment rates. But even so, the level of joblessness within these communities is massive and reflects the overall distortion in the labour market that has resulted in unprecedented rates of unemployment throughout the country.

Utilising the 2010 dependency ratio of 4.13 persons for each employed persons, the loss of 2.67 million job opportunities by the end of 2013 had a direct impact on the welfare of 11.03 million persons who lost their main source of livelihood. Moreover, the vast majority those fortunate enough to be employed were affected by drop in their real wages, which resulted in many households struggling to provide for family necessities because of the reduced purchasing power of wages and salaries.

Figure 9: Unemployment rate by governorates by the end of 2013



Source: SCPR projections

The effect of mounting recessionary forces in Syria has inverted the labour force from an instrument powering economic growth into a source of idle human capital that is rapidly depreciating. This is already having serious social consequences and deleterious economic impact that will have long-term effects, particularly among young men – many of who are becoming a significant component of the machinery of destruction and violence.

The dwindling formal labour market has forced many to participate in informal economic activities including tiny workshops and street-market micro-entrepreneurship. Moreover, many economic activities have moved from the conflict zones into other safer regions. This is changing the economic and demographic structure of these regions. In order to adapt to the crisis, the majority of entrepreneurs has turned towards unskilled and labour-intensive activities with low payment, which will diminish the accumulation of human capital and de-skill the labour force.

Squandering Development through Violence

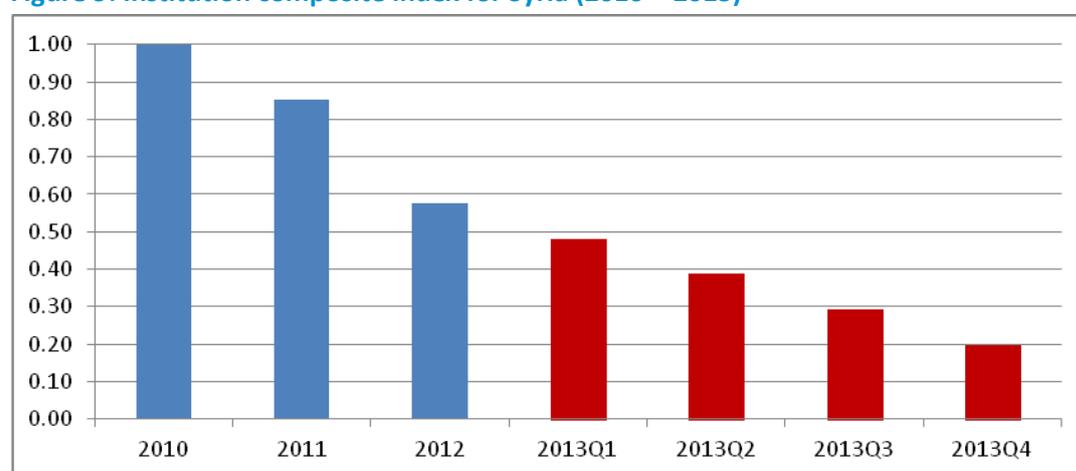
During the crisis, the sources of growth in Syria including, physical capital, labour and human capital, and institutions have been devastated. The economy has suffered from an unprecedented loss in capital stock, employees, human capital and institutional effectiveness but so far has managed to stave off total collapse. But in this context, new distortions are emerging with institutions formed and reformed using the remnants of wealth and capital to engage in conflict related activities. The armed-conflict has created new rules of political economy where economic resources are being reallocated to fuel war, violence and destruction.

The dynamics of the crisis created a new political economy with new institutions that have incentivised economies of violence that flout human rights, civil liberties, property rights and the rule of law. With them have emerged new social, political and economic elites that use national and international networks to illegally trade in weapons, people, and commodities, while often engaging in or supporting pillage, theft, kidnapping, and exploitation of humanitarian assistance. Often organised transnationally they have fashioned conflict-

related networks with other inside and outside Syria to subjugate communities and to continue the conflict against the interests of the general population. The functions and shapes of these conflict-related institutions are still ambiguous and shallow-rooted, but they remain a significant danger to the future polity of Syria.

Sustainable and resilient Institutions are a key factor that will determine the future of the Syrian economy. To recover from the current state of socioeconomic degradation, Syria requires an institutional formation that is inclusive, efficient, and effective if it is to eliminate the impact of institutionalization of violence that emerged during the crisis. As defined by Douglass North, formal and informal institutions define the rules of the game in society that form the humanly devised constraints that shape human interactions. (North 1990) These constraints include the negative and positive incentives for people to interact in certain ways.

Figure 9: Institution composite index for Syria (2010 – 2013)



Source: Worldwide Governance Indicators, World Bank, 2013, and SCPR estimations

To measure and gauge the institutional formation of Syria under the present crisis, this report adopts as a proxy the Worldwide Governance Indicators used by the World Bank. This includes six aggregated indicators of: voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law; and control of corruption. (Kaufmann et. al. 2010) The report standardized and composed all the six indicators in one index between 0 and 1. Using existing data available from 2010 until 2012, indicators are projected until the end of 2013. SCPR developed an institution composite index (ICI), assuming that institutional deterioration since 2010 continued at the same rate in 2013 as it depicted in 2012. This based on the assumption that the different proxy indicators deteriorated at the same rate of 2012.⁸ (See Figure 9)

Institutional performance is regressing in Syria, since under the current socioeconomic and political context of the armed-conflict people have extremely limited voice or accountability; they live in an environment lacking political stability and mired in violence; government effectiveness has deteriorated; the rule of law has been under major constraint and is no longer applied in many regions of the country; while corruption in the state sector has grown substantially during this period, the economy itself is stalled by economies of violence

⁸ For example, economic growth, unemployment rate, ratio of conflict-related deaths, refugees, IDPs, and poor people.

and illegality. Thus, based on the projected ICI, the institutional performance of Syria has deteriorated by 80 per cent against its 2010 level. This indicates that within any future development context, institutional reform in Syria will require significant attention to participation and accountability, political stabilisation and ending violence and intimidation, investment in governance for effectiveness, modernising and improving regulatory effectiveness, and full application of the rule of law to all areas of Syria.

While this idealised situation is currently at odds with the Syrian reality, there is growing number of grassroots organisations, intellectuals and individuals who — although they are suppressed by all parties involved in the armed-conflict — reflect the interests and aspirations of the massively marginalised population of displaced persons and refugees to overcome the current warfare, violence and subjugation. They continue to promote inclusive and human-centred development that respects humanity and human right, free opinion, civil liberties and national independence.

II. Social Impact of the Crisis

Displacement and Remapping Population

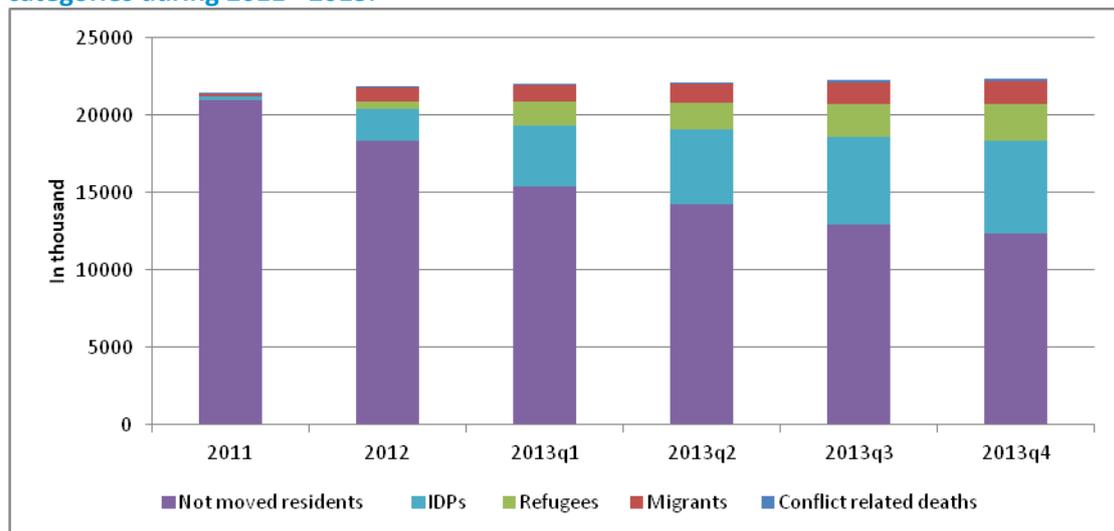
One of the most visible elements of the Syrian tragedy is the continuing displacement and flight of people across the country, mainly from conflict zones, which is compounding the misery of the Syrian population. The conflict had driven rapid demographic transformation on a colossal scale that has resulted in a **remapping** of the distribution the Syrian population both inside and outside the country. By the end of September 2013, the residential population of Syria had been hollowed out by 10.7 per cent compared to the population density at the end of 2010. During this period the total population declined from 20.87 million to 18.63 million inhabitants. Moreover, three month later, at the end of 2013, the population is estimated to have decreased by 12.1 per cent since 2010, falling to 18.35 million inhabitants.

Had the conflict not emerged and the Syrian population growth rate continued at 2.45 per cent annually, it is estimated that the total population would have reached 22.44 million inhabitants by the end of 2013. Thus, counterfactually, the potential versus the real population has declined by 18.3 per cent. In general, this contraction was due to the dramatic surge in the numbers of Syrian refugees and migrants departing the county, although it was marginally affected by the rising incidence of mortality resulting from the armed-conflict.

By the end of 2013, the total number of Syrian refugees in neighbouring countries reached to 2.35 million, including registered and waiting-to-be-registered refugees. During 2013-Q3 the Syrian refugee population increased by 364,000, growing by a further 224,000 during 2013-Q4 (UNHCR, 2013, 2014). At the end of 2013, while remaining the primary destination of fleeing refugees, Lebanon continued to host the highest number of Syrian refugees, with 36.5 per cent of all refugees sheltering there. Jordan accounted for 24.5 per cent of Syrian refugees, while Turkey and Iraq received around 23.8 per cent and 8.9 per cent, respectively (UNHCR, 2014).

The hollowing out of the population was also affected the rising scale of non-refugee migrants.⁹ By 2013-Q4, migrants accounted for 1.54 million departing Syrians, with 635,000 persons departing during 2013.¹⁰ As it is now increasing difficult for Syrians to find employment and business opportunities abroad, the pace of this migration is expected to subside, especially as the majority of persons that are able and willing to travel have already migrated.

Figure 10: Structure of total counterfactual Syrian population across conflict related categories during 2011 - 2013.



Source: SCPR estimations

While flight and departure of almost four million persons constitutes a mass exodus, the **internal remapping** of the population was even greater with 5.99 million people internally displaced by the end of 2013.¹¹ Thus, internally displaced persons (IDPs) constituted 33 per cent of the population living inside the country at the end of the period, with the number of IDPs growing considerably by 1.19 million persons during the second half of 2013. Few of these found succour in the 983 government shelters, with MoLA estimating that just 3.3 per cent of IDPs found shelter in these facilities. The majority of IDPs are residing in host communities throughout the country. The Aleppo governorate is the most significant host, with 24 per cent of IDPs sheltering there. Some 13.4 per cent of IDPs are sheltering in Rural Damascus and 12.4 per cent in Deir Ezzor. While many areas within these governorates are mired in conflict and remain unsafe, relatively few IDPs have moved to the relatively safe haven of Damascus, which accounts for just one per cent of IDPs. (MoLA, 2013) Thus, while there has been very significant internal movement of IDPs within Syria, many IDP families are not fleeing from governorate-to-governorate but are resettling in other areas of the same governorate were they were dislodged.

⁹ The report used this term instead of voluntary migrants in the previous reports.

¹⁰ The authors estimated non-refugee-migration based upon the following assumptions: First, the loss of jobs in 2011, 2012, and 2013 had the same structure as the employment status in 2010; second, the highest decile in terms of the expenditure of workers who lost their jobs (13.98 per cent) had migrated; and, third, assuming a dependency ratio of 4:1, or four persons to one job.

¹¹ The estimation until September 2013 based on MoSA published estimation, the fourth quarter estimation based on PICC numbers.

By the end of 2013, the armed-conflict resulted in the movement of more than 45 percent of the population who were forced to leave their homes, searching to find relatively safe places to live and struggling to find a means to earn a basic living. This steady and growing trend since 2011 has harmed lives and welfare of an increasing share of the Syrian population. (See Figure 10 above) About 60 per cent of the people-in-movement continue to live in Syria as IDPs; while 24 per cent became refugees fleeing abroad and 16 per cent migrated to other countries. This disruptive cartography was fashioned by a multidimensional catastrophe twisted by fear, violence and trauma that dislodged almost half of all Syrians from their homes, divided families through migration and flight and severed people from their neighbours and community. Most of those forced to flee as refugees live in poverty under miserable conditions, while many are subject to exploitation and abuse. Many have lost their homes and family members in the conflict, while many more have to care for injured and wounded relatives. The vast majority are poor and lack basic services, with elderly, disabled, infants, children and nursing mothers especially at risk.

Among the refugees and displaced communities are just over 63 per cent of an estimated 540,000 Palestine refugees in Syria. Half of these (270,000 persons) were internally displaced inside Syria, with over 200,000 displaced in Damascus, 6,600 displaced in Aleppo, 4,500 in Latakia, 3,050 in Hama 6,450 in Homs and 13,100 in Dera'a. Nearly 75,000 Palestine refugees from Syria have fled the country, with the vast majority (52,848) finding shelter in Lebanon, almost 14,000 in Jordan, 6,000 in Egypt, 1,000 in Libya, 1,000 in Gaza and numerous others seeking shelter in Turkey, Malaysia, Thailand and Indonesia.(UNRWA, 2014)

A Country of Poor People

This report utilises established national poverty lines to estimate and measure the incidence of poverty, its gap and severity across governorates. The estimations are based on the Household Income and Expenditure Surveys (HIES), augmented by using the counterfactual methodology to project real private per capita consumption growth in the period 2010-2013 through a micro-simulation technique.

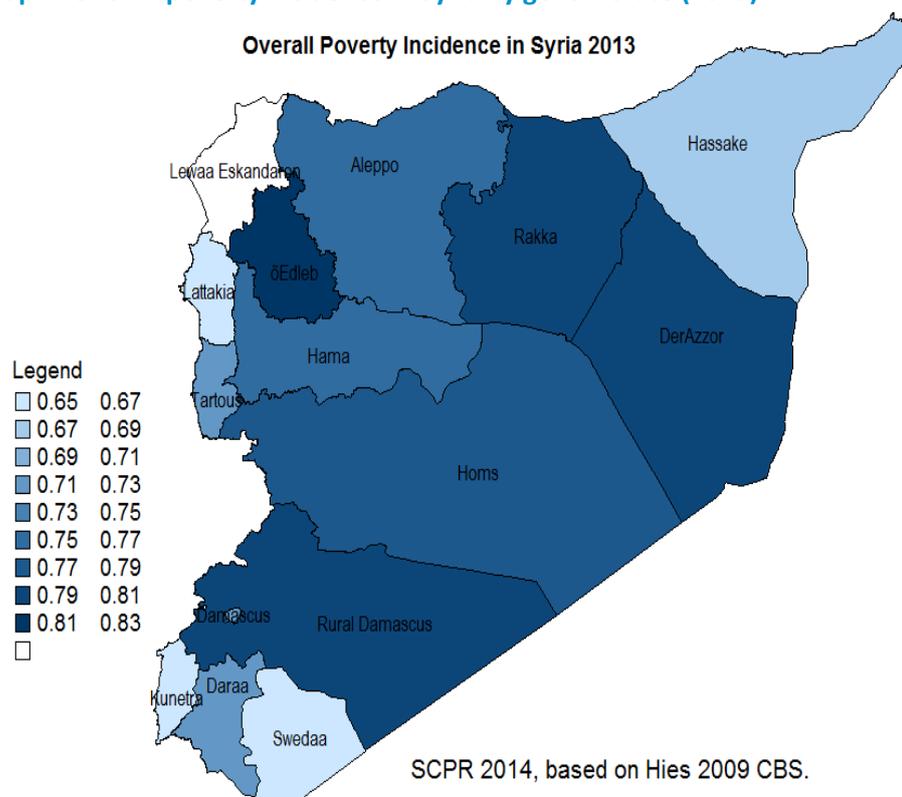
During the second half of 2013 poverty continued to deepen throughout the country as a result of: rising prices for goods and services; job loss and growing unemployment; swelling numbers of IDPs who lost their properties and assets; combined with a stinging economic recession. By the end of 2013, three in every four persons lived in poverty. Thus, the incidence of poverty in Syria has now reached catastrophic levels with the vast majority of Syrians now seeking to maintain a basic means of livelihood, which many are no longer able to meet.¹²

Assuming no change in expenditure distribution within each governorate, and taking into consideration the change in structure of the prices between governorates compared to

¹² Three indices of consumption deprivation are used to measure the depth and incidence of poverty. These include: "overall poverty" based on the upper poverty line, which is the minimum necessary goods and services that a household requires to survive; "extreme poverty" based on the lower poverty line, which is the very basic food and non-food items that a household requires to live; and, "abject poverty" based on the food poverty line, which are the minimum basic food needs of a household.

2009, it is estimated that the **overall poverty rate** reached 75.4 per cent by the end of 2013. While poverty varies among regions, those governorates that witnessed intensive conflict and had higher historical rates of poverty suffered most from poverty. Thus, people in Idlib were poorer than the rest of the country with 83 per cent of residents falling below the overall poverty line, while those in Deir Ezzor, Rural Damascus, and Al-Raqqa also suffered from high rates of overall poverty. There were few people in these regions that were not poor. While the poverty rate increased in all governorates since the last reporting period, the lowest rate was in Latakia at 65 per cent, followed by Sweyda, Hassaka and Tartous respectively. (See Map 1) But even in the regions with the lowest incidence of poverty, the majority of the populace was poor.

Map 1: Overall poverty incidence in Syria by governorate (2013)

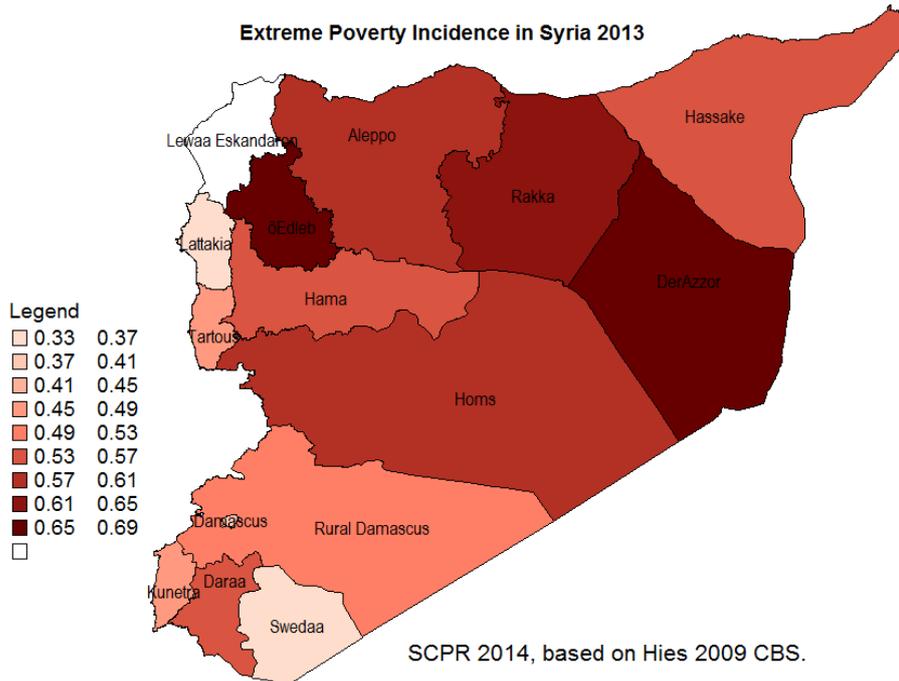


Source: SCPR estimations based on HIES 2009, CBS

A subset of the overall poor people is the set of extremely poor people that are defined by using the lower national poverty line. It is estimated that those living in **extreme poverty** reached 54.3 per cent of the population by the end of 2013, with those living in conflict-affected regions showing the highest incidence of extreme poverty. As with the overall poverty line, the population of Idlib was most affected by extreme poverty, with 69 per cent, households struggling to meet their households' basic food and non-food items to survive. This was followed by Deir Ezzor where 65 percent of households lived in extreme poverty. Similarly, most of the populace of al-Raqqa, Aleppo and Homs lived in extreme poverty.

The lowest rates of extreme poverty were in those areas of the country that had been least affected by direct military actions. Thus, both Latakia and Sweyda witnessed the lowest incidence of extreme poverty which affected the third of the population. (See Map 2)

Map 2: Extreme poverty incidence in Syria by governorate (2013)



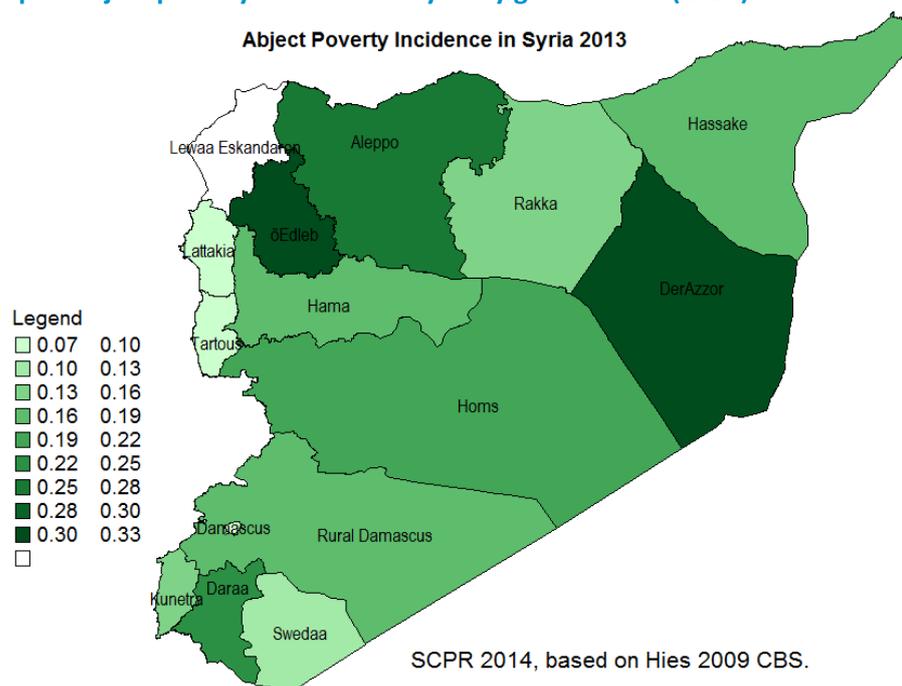
Source: SCPR estimations based on HIES 2009, CBS

The intensifying military operations and blockades in several areas within Syria dramatically increased the prices and the scarcity of basic goods, particularly food items. This is reflected in the sharp increase in the abject poverty rate which reached 20 per cent by the end of 2013. At this level of poverty people find great difficulty to provide for the non-food items required of the household. Such excessive levels of deprivation put life at risk, which is reflected in the increasing number of tragic cases of death due to malnutrition and starvation, especially besieged and isolated places. It is estimated that a third of the population of Idlib lived in abject poverty, finding it difficult to meet the basic food needs required to sustain bare life. Approximately, a third of the population of Deir Ezzor lived below the abject poverty line, while a quarter of the populace of Aleppo and Dara'a lived below the abject poverty line.

In contradistinction, an estimated seven per cent of the populations of Latakia, Tartous and Damascus lived below the abject poverty line, with Sweyda also having a relatively low incidence of abject poverty. (See Map 3)

Thus, the armed-conflict has not only dramatically increased and deepened economic deprivation, it is the major force amplifying the social and political deprivation of Syrians. The conflict has created an environment where the rule of law is frequently absent, where there is unequal access to basic goods and services, where the quality and standard of living is rapidly diminishing. This is an environment in which Syrians are increasing disempowered, alienated and dispossessed from the fundamental means of earning a living. The armed-conflict has turned Syria from a developing nation into a nation of displaced, unemployed paupers, where humanity is being squandered.

Map 3: Abject poverty incidence in Syria by governorate (2013)



Source: SCPR estimations based on HIES 2009, CBS

Running Backwards

One global measure that provides insight into the impact of the regressive social and economic forces facing humanity in Syria is the Human Development Index (HDI), which is used to measure key aspects of development status. While the HDI is used in the report to assess the impact of the armed-conflict on the human development status in Syria, it does not capture all aspects of development, especially important cultural and institutional developments. The report modified the earlier HDI record for Syria until 2011 based on the latest UNDP update. (UNDP, 2013)

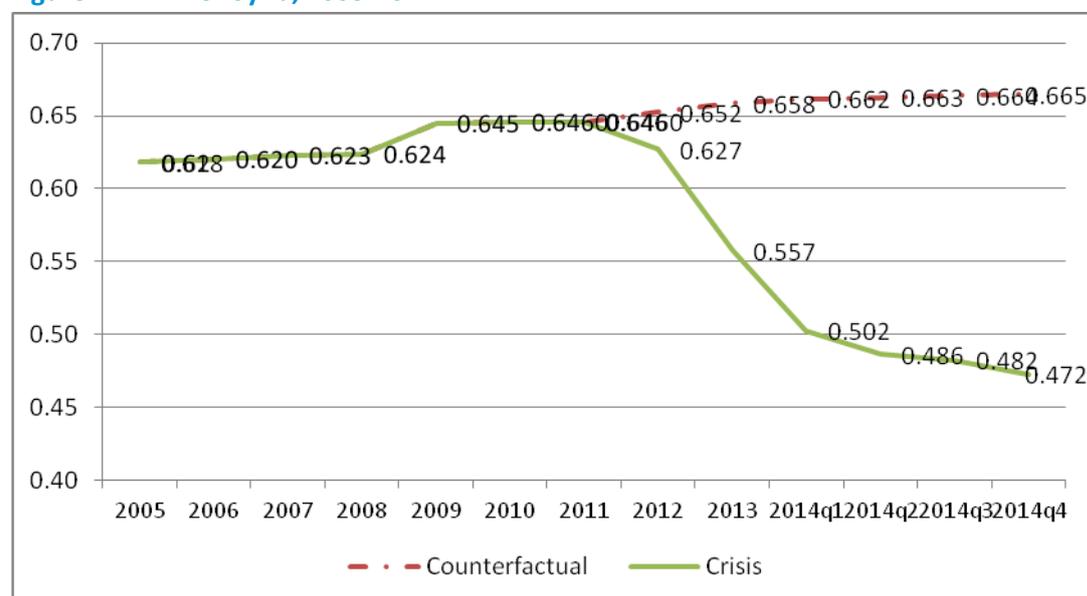
The negative impact of the armed-conflict on health, education and income, which are the three main components of the HDI, has led to a rapid deterioration of Syria's HDI record. Estimating the HDI until the end of 2013, the report applied the same counterfactual analysis applied in the previous quarterly reports. It also applied the accumulated impact of the school-age non-attendance rate on the expected years of schooling, using 2010 as a reference year. The GDP per capita was already estimated for "continuing" and "crisis" scenarios (economic section above), and the life expectancy as a proxy for health is calculated based on the gain/loss of life expectancy by reducing it for violent deaths using the Eastern Mediterranean as reference for Syria. (Ferguson et al, 2010) The results showed that estimated life expectancy in Syria fell back by 12.77 years in 2013-Q4 compared to 2010 and by 2.86 years compared to 2013-Q2.

The impact of the armed-conflict on the three components of HDI resulted in a significant deterioration Syria's human development record. The results show that in the "continuing scenario" the Syrian HDI would have increased from 0.646 in 2011 to 0.665 by the end of 2014, putting it in the "medium human development" group.¹³ (Figure 11) However, the

¹³ HDI 2014 measures human development indicators in the previous year, i.e. 2013.

"crisis scenario" indicated a projected drop in Syria's HDI from 0.646 in 2011 to 0.482 in 2014-Q3 and to 0.472 in 2014-Q4 putting it among the "low human development" group. Consequently, the HDI of Syria is estimated to have lost 26.9 per cent of its HDI value compared to 2011, and 28.9 per cent from its potential until the end of 2014.

Figure 11: HDI for Syria, 2005-2014



Sources: HDR 2011 and SCPR estimations (for HDI of 2012 – 2014)

This estimated HDI contraction indicates that Syria has lost decades of human development achievement since the beginning of the conflict. Approximately 42 per cent of the HDI difference between the "continuing" and "crisis" scenarios in 2013-Q4 is due to educational deterioration, particularly the rapid increase in the school-age non-attendance rate. The negative impact of the conflict on health contributed 30 per cent of the total HDI loss, while the dramatic decrease in income during the crisis contributed 28 per cent. Overall, the dramatic damage to human development has pushed back the country's development situation by more than four decades.

Education: Teetering Human Capital

The opening of the new school year (2013-2014) began in the latter part of 2013 within a context of increasing violence and escalating numbers of IDPs and refugees in many governorates. This had a profound impact on educational infrastructure and capacity, including education warehouses and equipment that was stolen or destroyed. By December 2013, the Ministry of Education announced that 4,000 schools were out of service due to direct damage or were being used to shelter IDPs. Most damaged schools were located in conflict areas such as Aleppo and Idlib, whereas there was only minor damage to educational infrastructure in relatively safer districts such as Sweyda and Tartous.

With hundreds of thousands of children no longer attending or unable to access school, the future life chances of the young generation are in jeopardy. By the end of 2013, the non-attendance rate of school-age children was 51.8 per cent.¹⁴ This was up on the 49 per cent of

¹⁴ The school-age non-attendance rate estimation is calculated based on MoE data as: $[1 - ((\text{the enrolment rate in the first class of basic education}) * (\text{the attendance rate from basic education}))]$ by governorate till the end of 2013.

children who were absent during the 2012-2013 school year. Thus, more than half of school-age children were no longer attending school. In the international context, the comparison of the net enrolment rate of primary education between Syria and other countries showed that Syria ranked number 21 in 2010 out of 136 countries. (WDI, 2013) But based on current enrolment, using the 2010 data, it is estimated that Syria has fallen to the bottom of the ranking in the 135th position, i.e. the second worst performance in the world.

Moreover, there is inequality across the country. In the second half of 2013, school-age non-attendance rate was highest in Al-Raqqa and Aleppo where 94 per cent and 90 per cent, respectively, of school-age children did not attend school. During this period there was reduced school attendance in Rural Damascus and Homs governorates where non-attendance increased from 37 per cent and 28 per cent in 2013-Q2 to 68 per cent and 45 per cent at the end of 2013, respectively. Such trends march in lockstep with expanding violence and destruction that prevent children from attending or reaching educational facilities. In this context, female children and young girls are perceived as most vulnerable to violence and insecurity and their attendance rates are greatly influenced by the level of human security. This may threaten women's future opportunities for political, social, and economic participation and result in regional and gender inequality which will distort future economic growth, while inhibiting the allocation of opportunities and resources.

While school non-attendance is not as dramatic in the relatively safer areas of the country, poverty, displacement and deteriorating living conditions forced many children to drop out of school in order to decrease the financial burden on their families. Moreover, the quality of education has deteriorated and is constantly compromised even in the safest areas. An increasing number of schools have introduced a two-shift system to manage classroom density as large numbers of new students have moved into safer areas from conflict zones. This has led to fewer hours of education and more crowded classrooms. The quality of education was affected by the loss of human resources with teacher shortages due to emigration, refugee flight and displacement. This has put pressure on the capacity of the educational system to maintain good educational outcomes under extremely stressful environmental conditions. Almost 500 educational workers were killed in 2013 according to the Ministry of Education, while many more have been injured, kidnapped or arrested.

As it has spread geographically, the extensive and widespread nature of the conflict has jeopardized communities' abilities to maintain schools as safe and secure environments where children can continue to learn and develop. In many regions children's wellbeing and development is compromised due to lack of nutrition, healthy habitat and trauma. Moreover, children across the country, but especially in northern areas like Aleppo, Al-Raqqa and Deir Ezzor, are reportedly subjected to violence, and/or recruited into violent activities.

Multiple civil society and grassroots initiatives have emerged to support the continuation of education and learning activities in areas where formal education was interrupted. Some initiatives have maintained continuity with the national educational curriculum by teachers and community activists. Other initiatives have been established under more challenging circumstances to provide learning activities and psychosocial support to the children and young people in conflict areas. However, other informal educational processes have been

established in some areas that have adopted different curricula that increase the prospect of fragmentation between students through reinforcing ideas of difference in values, principles, belonging and identity. These elements are directly and indirectly exploiting the educational learning process to increase their influence by affecting the consciousness and behaviour of the young generation to support their worldview. The mobilisation of the educational system to create a culture of fear, polarization, fanaticism and disrespect for other people is insidious and only serves to undermine the concept of Syria as a national and geographic entity.

The armed-conflict had less impact on higher education than on primary and secondary education, as many universities were located in safer areas of the country.¹⁵ The most notable impact was on student enrolment and attendance, which was affected by flight, migration and displacement which also led to a shortage of professors and academic workers who were part of the general population movement across Syria. Professors, academic workers and students also face difficulty in participating in academic life due threats, kidnapping and arrest. While higher education is a significant conduit of human development, this role is being adversely affected by the armed-conflict.

The education system plays a significant role in the development process through science, innovation and preparing people for the labour market. It is also a fundamental catalyst for social progress, trust, solidarity and social cohesion. The combined impact of the armed-conflict and economic degeneration unsettled the education system and endangered its role as a main conduit to prepare and develop human capital in Syria. SCPR has measured lost human capital as a factor related to lost years of schooling. Based on calculating each year of schooling as a factor of GDP, each year of schooling is valued of USD 680 per student.¹⁶ With the school-age non-attendance rate reaching 51.8 per cent in 2014-Q4, this resulted in a human capital loss of USD 0.45 billion during the quarter, which increased the aggregate total human capital loss since the beginning of the crisis to USD 3.19 billion. Moreover, based on the counterfactual methodology, it is estimated that there was a 4.8 per cent reduction in the mean “years of schooling” since 2011, which will have a significant impact on the quality of human capital, and, thus, on a key resource of human development and economic growth in Syria.

Public Health Disaster

The health of a nation is determined by social, economic, cultural and political organisation that determines the opportunities for individuals to achieve health. The armed-conflict has damaged the national healthcare system through damage and destruction to medical facilities and the healthcare infrastructure, the flight of healthcare professionals, death and injury of healthcare staff and the collapse of the pharmaceutical industry. Consequently, the public health system is in a state of collapse in many areas of Syria, creating enormous burdens on existing facilities, while private and civil society facilities have capacity

¹⁵ Aleppo University was most affected with damage to multiple buildings, with some buildings damaged and some blocks used as IDPs shelters.

¹⁶ The SCPR methodology determined the value of each school-year was calculated as an average between 2006 and 2010 by dividing the GDP at current prices over the total number of years of schooling. The result produced a value of USD 680 per year of schooling, which was then applied to the dropout rate.

limitations. By 2013-Q4, 61 of the 91 public hospitals across the country were damaged, with 41 of them (45 per cent) out of service, while 53 private hospitals have also been affected.

The health sector has not been immune from the activities of the subjugating powers that has involved violations of human rights and medical neutrality. (WHO, 2008) In conflicts, health workers and facilities are often used as weapons of war. A recent review of documented assaults on health workers and facilities in times of war identifies three general trends, which have also been witnessed in Syria:

- Attacks on medical functions as part of a broader assault on civilians;
- Attacks on medical functions to achieve military advantage; and
- Disrespect for medical ethics and the duty of health workers to treat all, including combatants, regardless of affiliation. (Rubenstein and Bittle, 2010)

While a healthy population is a main goal of the development process as good health should be the right of each citizen. Health is also crucial means to achieve political, social, and economic prosperity. During the Syrian crisis, domestic powers of subjugation and their supporters have distorted health institutions as a means of punishing and subduing their enemies. Many have used conflict related networks to exploit people in urgent need for health services through monopoly, corruption, smuggling, pillage and discrimination in a manner totally at odds with medical ethics and neutrality.

The international community is responding to the Syrian crisis, including the health tragedy, with one of the biggest humanitarian aid budgets in history. With escalating violence and complexity of the conflict in Syria, the international community is increasingly under pressure to scale-up its aid to the massively growing needs inside and around Syria. However, there is substantial polarization within the humanitarian crisis, not only the different parties of the conflict, but within the international community itself that is subject to competing and contradictory demands by the parties to the conflict and their supporters. This is having a negative impact on the ability and efficiency of delivery of humanitarian supports, which leave many communities with limited medical and healthcare support.

Moreover, human displacement, the destruction of habitat, the absence of basic needs and lack of access to clean water, or even the fear and anxiety of such privation, are all undermining the health and wellbeing of ordinary Syrians during the current conflict. The conflict rendered high health costs on the population requiring medical services from a health system in a state of collapse, with women and children, the sick and the injured especially at risk. Indicative of this systemic collapse and the failure of medical neutrality was the slow and uncoordinated response to epidemics like measles in Aleppo, with the incidence lessening after the September 2013 vaccination campaign. More alarming was the slow response to the appearance of polio in the northern and eastern regions, with 89 cases reported by MOH and WHO by the end of 2013

The health of ordinary Syrians has also been compounded by scarcity and availability of pharmaceutical products, with growing disparities among different regions as cancer drugs and medicines for chronic diseases are reportedly unavailable in many areas of the country, including Dara'a, Rural Damascus, Homs, Hama, Aleppo, Idlib, Deir Ezzor, Al-Raqqa, and Hassaka. This is worrisome, since even before the crisis the highest cost burden on Syrian

households was health expenditures for medications and hospitalization. Thus, in an environment of scarcity of medicines and diminishing treatment centres this burden is likely to have increased among a population that has got much poorer, with many no longer able to afford either medicine or medical treatment. Driving this scarcity is the destruction of pharmaceutical industries that resulted in fall in pharmaceutical production by 90 per cent compared to pre-crisis levels. (SHARP January-December, 2013) This has led to the development of a burgeoning black market for pharmaceutical products that are contributing to a growing equity gap within Syria, where soon only the better off will be able to afford decent healthcare.

The dreadful death toll is one of the most tragic aspects of the armed-conflict, while the ruin of the healthcare system and lack of life-saving medical equipment added to this levy as many deaths were preventable with appropriate care and trauma services. By the end of December 2013, the death toll in the country reached 130,000 people, increasing from 100,000 people in 2013-Q2. However, such numbers belie the full extent of the tragedy, as a greater number of individuals and families have been affected by injury sustained in the conflict, which has resulted in approximately 520,000 maimed, wounded and injured people.¹⁷ Thus, by the end of 2013, almost three percent of the Syrian population were killed, maimed or injured in the conflict.

Dominance of Subjugating Powers

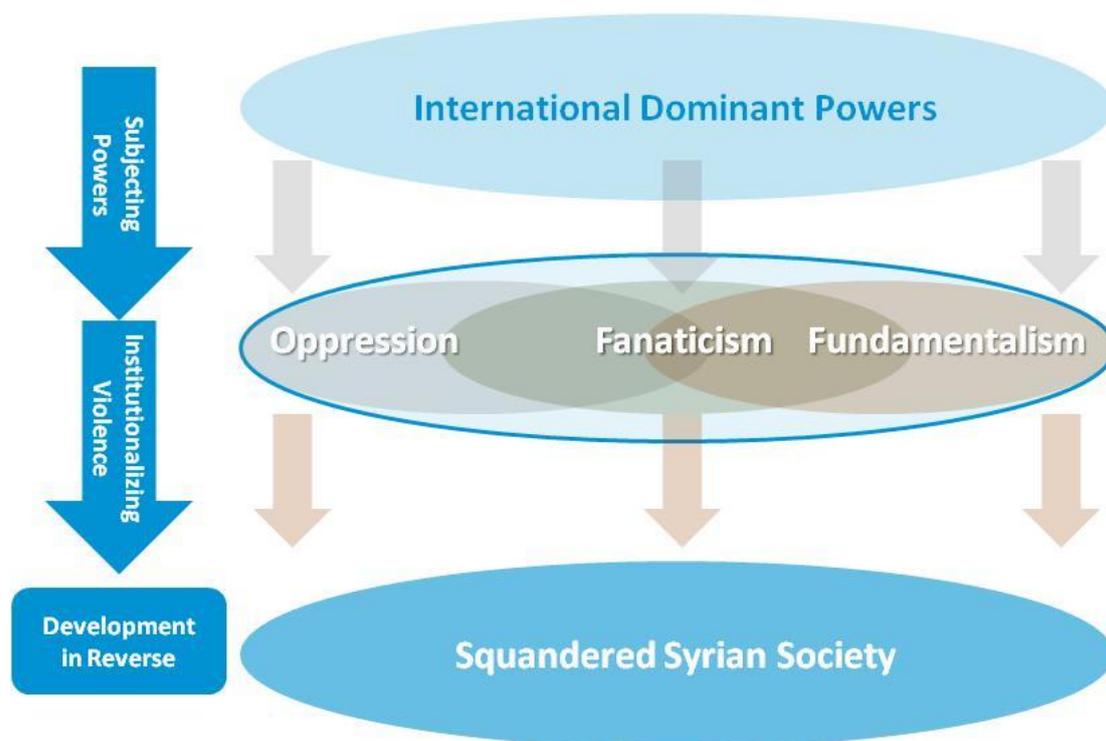
In addition to the dramatic impact of the crisis on human development, its impact on social relations, social and cultural capital and national identity were no less catastrophic. This report highlights these complex social issues that require further conceptual and systematic effort to thoroughly understand the impacts of the crisis upon them.

The report places social analysis within a comprehensive framework based on a broad concept of development, showing links with economic, human development, and institutional features. The report uses the concept of squandering humanity; defined as the wasting of human beings and values that results in the diminution and debasing of human capabilities, awareness, thought, and belongingness. (Hijazi, 2006) The squandering of humanity hinders all developmental and renaissance efforts by disrespecting human personality and dignity which are the core values of any human development. (Zureiq, 1998)

The framework identified the main powers that evolved during the Syrian crisis, distinguishing between those adopting violence to dominate society (subjugating powers) and those struggling to empower individuals and society to guarantee civil liberties, inclusiveness, participation, and social justice (civil powers).

¹⁷ This is based on the assumption that the number of mortalities to wounded persons is estimated on a conservative ratio of 1:4.

Figure 12: Subjecting powers during the Syrian crisis



Source: Syrian Centre for Policy Research based on Hijazi 2006

The main domestic forces of subjugating power are political oppression, fanaticism, and fundamentalism: (Figure 12)

- Political oppression is represented by multiple forms of exclusion, marginalization, obscuring of civil liberties, absence of accountability and the outlawing and criminalizing of opposing intellectual and political trends and activities.
- Fanaticism is the denial of the other's existential right, in its most extreme form even their right of existence. It includes tribal and ethnic fanaticism. Fanaticism also provides protection and support for members who are loyal and obedient, but suppresses self-autonomy, dissent and intellectual creativity within such communities.
- Fundamentalism based on institutional religious radicalism and extremism has much in common with fanaticism to which it bears a kindred semblance. Acting and judging by sacred exegesis, it is authoritarian and threatened by free thought and dissent.

Such subjugating powers of domestic origin are preserved by various international forces and powers that support their political intentions and military objectives, often under various discursive facades, such as supporting democracy or protecting sovereignty or fighting terrorism. (Hijazi, 2006)

Domestic civil powers, represented in social movements and civil society initiatives that seek to achieve national aspirations and priorities inclusively and peacefully, remain marginal and

sublimated as they are suppressed by the various subjugating powers. Moreover, linkages, solidarity and support from international civil powers that share the same objectives for social justice and human prosperity with domestic civil powers remains inconsequential and ineffective as they are inconsistent and contradict the international and domestic subjugating powers. Unfortunately, just as the domestic civil powers have been excluded, international civil partisans of peace and justice are not welcome at the Great Game in Syria.

Before the current crisis, there was significant torsion between the low equilibrium of social development in Syria and the inefficiency of its institution, both formal and informal. Based on key social indicators, the social development situation in Syria was relatively developed; with universal basic education and health services; support to the poor and low-income households through subsidies on basic commodities; and connectivity and access to information as a result of the global ICT revolution.¹⁸

Conversely, formal and informal institutions were not participatory or accountable, but essentially coercive and supervisory of human energy and agency, creating personal obedience and docility inculcated by numbing codes of discipline, whereby civil liberties and free-thought were suppressed by regimes of epistemological control and conformity. This torsion is rooted in the failure of the institutional matrix to realize the need for social development combined with the fulfilment of creative and cultural capacities. Institutional coercion and compulsion diminished and squandered human capacity, awareness and thought and constrained and controlled social, cultural, economic, and political life in Syria, where there was a bare semblance of political and intellectual life and the public civil space.

This deeply rooted institutional polity was a social and cultural dilemma that the social movement in Syria aimed to transform, but in doing so it faced repression from the political authorities. As the armed-conflict emerged, the aspirations of the civil powers to reach a fair and just society were suppressed by both the old and new subjugating domestic powers, diverting the movement towards internal armed-conflict. The absence of internal political and civil solutions created an environment where polarization, fanaticism, and fundamentalism found a fertile feeding-ground, with many of those involved in the conflict willing to sacrifice themselves and to deprive others from their rights to life in order to serve the subjugating powers.

External powers have intensified the armed-conflict in Syria by supporting the various domestic and foreign internal powers of subjugation. This external partisanship has fed the Syrian catastrophe through political, military, financial, and media support. Whereas the support provided to civil powers in Syria was hesitant and limited, while support to the people of Syria has focused on humanitarian aid that – while critical - has been insufficient to needs of the mass of people that have been displaced. The political mapping of the contours of this crisis indicates that the external actors have had the major influence upon it. It also shows that national and international civil powers have played a minor role of in the crisis, and show the huge gap between subjugate powers' goals and the priorities of Syrian

¹⁸ As in the rest of the Arab world, the later most certainly had an impact on expectations and aspirations within society, especially among youth who were the most plugged into this development, yet at the same time the most economically and socially excluded.

people (SCPR, 2013d). There is a deep frustration within Syrian society that main actors in the armed- conflict are not concerned about the needs and priorities of the people.

Moreover, Syrian national identity is being affected by contending and divisive narratives, one is inclusive and represented by the movement within civil society that seeks restoration based on dominion through citizenship and justice. The other valorises clannish exclusion by attaching sovereignty to sub-national identity and belongingness, within an ecology of fear that nurtures fanaticism and fundamentalism that is opposed to the other and otherness. (Jebaie, 2013) This has spawned new institutions of subjugation and economic power that use violence and fanaticism to strengthen the positions and interests of the different parties in the armed-conflict, together with the emergence of fundamentalist institutions that claim infallibility and exclusivity in holding truth and beholding faith. The emergence of such institutions is also associated with the spread of kidnapping, torture and killing of people because they are other, and thereby contributing to the weakening the national identity and Syrian belongingness.

The future of Syria and its national identity, its consciousness and civic values is being formed within the dynamics of the conflict, which is at core a confrontation between the powers of subjugation and the universal interests of common society

Concluding Summary

The armed-conflict in Syria is one of the most painfully tragic and violent conflicts of the twenty-first century. It has wrought dramatic destructive transformation on political, social, and cultural life, inflicting disastrous economic damage that is depleting the wealth and capital of the country. Measured by the Human Development Index, development in Syria has been pushed back by more than four decades. Institutional performance in Syria according to the Institution Composite Index has regressed by 80 per cent since 2010 due largely to the development of institutions producing economies of violence. But the most tragic aspect of the crisis is the large-scale squandering of humanity.

Political power based on oppression, fanaticism, and fundamentalism is suppressing and subjugating civil society, producing economic degradation, mass unemployment and poverty, social injustice and global marginalisation that has alienated the vast majority of people from their habitat, communities, employment, business and means of living, leaving millions of men, women and children scarcely able to sustain bare life above the biological minima of existence.

Almost half of the Syrian population fled from their usual habitat because of the conflict, with the population hollowed out by almost 12 per cent due to the flight of 2.35 million refugees and the departure of another 1.54 million non-refugee migrants. Additionally, almost six million people were internally displaced from their homes and neighbourhoods by violence, homelessness, fear and intimidation. More than 11 million people have lost their primary income support as 2.67 million people lost their jobs during the crisis. Over half the workforce is unemployed and 75 per cent of the population lives in poverty, 20 per cent of them live in abject poverty where they are barely able to meet the basic need for food, while food prices nearly tripled. Almost 3 per cent of the population has been killed, maimed or injured in the conflict.

The contraction of the Syrian economy is one of the worst in the world since the 1960s. Total economic loss by the end of 2013 reached USD 143.8 billion, equivalent to 276 per cent of Syria's GDP in 2010. GDP loss is estimated at USD 70.9 billion over the period, accounting for 49 per cent of the total economic loss. The loss of capital stock, due to damage and destruction, pillage and theft reached USD 64.8 billion, accounting 45 per cent of the total economic loss, while additional military expenditures of USD 8.1 billion accounted for six per cent of this loss.

Massive business closure and layoffs across all sectors of the economy since 2010 resulted in a substantive restructuring of the economy, with continuing contraction in internal trade, mining, transportation and communication and construction. Government services and agriculture assumed the major positions in the economy with both together contributing 50 per cent to GDP, thereby assuming a larger portion of a much slighter and unremittingly shrinking production.

Thus, the armed-conflict in Syria has created a humanitarian catastrophe of escalating scale, with the Syrian refugees fleeing the conflict now the largest and most rapidly growing refugee population in the world. Unfortunately, too little has been done to mitigate this conflict and contain the violence, which is being integrated into a new political economy and

institutional matrix that is perpetuating a devastating economics of violence. Many Syrians now believe that the time has come to end the wanton violence and support and create inclusive and efficient institution that respect human life as the doorway through which Syrian society must exit the current crisis and re-establish respect for humanity in all its social and cultural diversity.

Appendix

Methodology

This series of quarterly reports take into account seasonality to estimate the quarterly GDP in Syria, especially for the agriculture sector which fluctuates across the seasons. The seasonality of agriculture production in 2011 is used as a benchmark to weigh growth rates of the sector in 2013 quarters. The estimation of GDP real growth/contraction in 2012 and 2013 depends on a production approach to estimate the supply-side dynamic of different economic sectors. This approach faces three main challenges in Syria: first, National Accounts usually releases the annual output of different economic activities of a specific year in the second half of the following year; second, official statistics have never published a quarterly GDP; and, third, there is a lack of surveys and secondary data due to the difficulty of conducting such work under the prevailing circumstances.

The dynamics of crisis have increased the need of various stakeholders for updated estimation of the economic situation. In order to overcome the above challenges, the report used quantities of production of key goods and services as proxies to the growth/contraction of GDP by sectors. For instance, changes in the production of main crops are used as a proxy to estimate the growth of the agriculture sector, and changes of daily oil and gas production are used to estimate the growth/contraction in the mining sector. In several cases, econometric models were applied to estimate GDP. The team consulted sector experts to diagnose the main challenges for each sector and to check the reliability of GDP estimations. Annual growth rates of GDP in 2013 quarters are now compared with GDP in the parallel quarters in 2012.

Moreover, the report used the financial programming, which is an integrated system of macroeconomic accounts that includes national accounts, balance of payments and fiscal and monetary accounts, which provide the information needed to assess the impact of the crisis on the Syrian economy and the options for policy adjustment. The tool also provides a framework for policy analysis and indicates key consistency checks. SCPR integrated capital stock calculations, money-metric poverty at the household level and labour market performance, with standard financial programming. The financial programming tool has been chosen over microeconomic time-series and CGE models as these do not efficiently account for dramatic changes in economic variables. The financial programming model more efficiently reflects the current situation of the Syria economy in a time of dramatic change.

In terms of the GDP components from the demand-side; the public consumption and investment elements are based on estimations of the public budget components, private investment is estimated by the changes in private output in real sectors, and exports and imports are estimated using the gravity model for Syria and checked with the quantities of imports and exports through ports. (Mehchy et al, 2013)

The estimation of capital stock and depreciation rates are based on the 2013 SCPR report (SCPR, 2013a). The total loss of capital stock is calculated on the loss of residential buildings (using updated estimations) and the loss in non-residential buildings, while equipment and tools are estimated using the output capital ratio. This loss consists of three main components: reduction in net investment due to the crisis; idle capital reflecting the

cessation in production process; and, partial and total damages of the capital stock. The last component is not included in GDP loss and is thus added to overall economic loss.

The GDP in current prices is computed using the projections of GDP deflator which depends primarily on the Consumer Prices Index (CPI). Until March 2013, the CPI was produced by the Central Bureau of Statistics (CBS), and until August it was projected by SCPR team using the elasticity between CPI and nominal exchange rates in the first quarter of 2013. Within the framework of the financial programming model linking real sector, public budget, external sector, monetary sector, employment and poverty, the report estimated the number of lost jobs and unemployment rates until second quarter of 2013, using the elasticity of GDP with respect to employment.

The report projected public budget items depending on government decisions related to public expenditure in terms of wages, subsidies, and public investment, while the revenue projections depended on oil production, tax collection, and State Owned Enterprises performance. Consequently, the report computed the fiscal deficit which reflected an increase in public debt.

In terms of poverty, using national lower and upper poverty lines (based on poverty research from HIES surveys in 2009) the report estimated poverty rates in Syria until December 2013 across governorates.

It should be noted that the estimation of losses in GDP, capital stock, employment, and poverty indices are the difference between the crisis scenario (real indices) and the continuing scenario, which include indices as if the crisis did not happened. That helps in estimating direct and opportunity loss of the conflict.

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